

OPERATIONAL SUSTAINABLE PERFORMANCE AND TAX AVOIDANCE: EVIDENCE FROM INDONESIA

Indah Umiyati¹ Trisandi Eka Putri² Mala Septiana Putri³

¹ STIE Sutaatmadja, Indonesia

² STIE Sutaatmadja, Indonesia

³ STIE Sutaatmadja, Indonesia

indahumiyati@stiesa.ac.id

INFO ARTIKEL

Histori Artikel :

Tgl. Masuk : 01-09-2023

Tgl. Diterima : 30-09-2023

Tersedia Online : 30-09-2023

Keywords:

Operational Sustainable Performance, Tax Avoidance

ABSTRACT

Tax is one of the main sources of state revenue imposed on the people based on the applicable law. In practice, problems related to tax collection in Indonesia often occur, one of which is the practice of tax avoidance by companies by exploiting loopholes in tax regulations. One of the factors suspected to be related to tax avoidance is sustainability performance. This study aims to analyze the relationship between OSP and tax avoidance in companies listed on the Indonesia Stock Exchange for the energy, consumer non-cyclicals and consumer cyclicals sectors.

This research analyzes companies in the energy sector, consumer non-cyclicals and consumer cyclicals from 2019-2021 and obtained a sample of 106 company-years. To control company characteristics and governance factors that can affect tax evasion, the study used control variables for firm size and institutional ownership. Estimation is done by the OLS method.

The results of the study show that operational sustainability performance has a negative effect on tax evasion. This shows that the operational dimension of sustainability performance results from a sense of corporate responsibility to stakeholders, so that the better the operational sustainability performance indicates the better the company's responsibility to stakeholders, including in terms of paying taxes. Under these conditions, companies will be more obedient in paying taxes and minimize tax evasion efforts.

INTRODUCTION

Tax is one source of the main state revenue imposed on the people based on the law in force. In practice, often there are problems related to tax collection in Indonesia, one of them that is practice of tax avoidance company using loopholes in the tax law. Lots of research has done to analyze factors influencing tax avoidance in Indonesia.

One predictable factor associated with tax avoidance is sustainability

performance. Sustainability performance been lately lots highlighted by the company's stakeholders Because the resulting performance from balancing three important aspects known as the Triple Bottom Line concept namely people-planet-profit (Tarigan & Semuel, 2015). Sustainability performance of the company refers to how much capable company in fulfil need from stakeholders' interests and customers in period following length effective management (Stanciu et al., 2014).

Previous research has been done to analyze connection between sustainability performance companies with tax avoidance. Davis et al. (2016) show sustainability performance seen from responsibility social company positively related to tax avoidance. Positive relationship between sustainability performance with tax avoidance can be seen using economic traditional theory show companies involved in tax evasion will trying to improve sustainability performance company to maximize mark holder share (Bisig & Hummel, 2017). Minimizing corporate tax obligations will increase stakeholders' wealth, however on the other hand will have an impact on risk on reputation companies and opportunities detected tax avoidance activities and ends in sanctions given by the tax authorities. Under these conditions, the company will focus on sustainability performance company to build a positive reputation. This is a form of risk management in dealing with crisis company and mitigate consequence negative from crisis company (Bisig & Hummel, 2017).

Other studies that analyze connection between sustainability performance show negative association (Hoi et al., 2013; Lanis & Richardson, 2012). Negative association between sustainability performance with tax avoidance can reviewed from stakeholder theory interests and culture company perspectives. Based on stakeholder theory, then the company will try fulfilling responsibility to all stakeholders' interest in this case will be minimize impact negative for the environment and society as well as will pay taxes fairly (Bisig & Hummel, 2017). In perspective culture (Hill et al., 2014) show that people or groups within an organization have same norms, which influence behavior them to the stakeholder's external interests. Based on this understanding then sustainability performance and corporate tax payments characteristic each other complement in to form culture strong sustainability.

Trumpp et al., (2015) deliver sustainability performance consists of managerial dimensions and operational dimensions. Managerial dimensions refers

to sustainability performance level strategic, that is, policy, structure, and process, whereas dimensions operational focuses on impact environmental and social measurable company. Bisig & Hummel, (2017) state that sustainability performance management is aimed at building reputation and risk management objectives, and theory economy tradition can be applied specifically to viewing performance management sustainability.

Whereas operational dimensions from sustainability performance is easier thing observed because can quantified in terms of impact environment and social. Cho et al., (2012) show that operational sustainability performance (OSP) effect negative on reputation company. This means that the OSP is numerically can observed it does not have an impact on the better reputation company and not is way to improve reputation company. Then use angular view theory stakeholders' interests and culture company, through company OSP will try fulfilling responsibility to all stakeholder's interest in this case will be minimize impact negative for the environment and society as well as will pay taxes fairly.

Operational sustainability dimension through OSP easier observed and measured, then this study aims to analyze connection between OSP and tax avoidance on companies listed on the Indonesia Stock Exchange for the energy sector, consumer non-cyclicals and consumer cyclicals (this sector was selected because there have been several cases of tax evasion in the sector). This study analyzes companies in the energy sector, consumer non-cyclicals and consumer cyclicals from 2019-2021 and obtained a sample of 106 companies - years. To control factor characteristics company and governance that can affect tax evasion, the study uses the control variable firm size and ownership institutional.

This research contributes to several things. First, is the first study in Indonesia to examine the relationship between OSP and tax avoidance. Some research on responsibility social company against tax avoidance (Amalia et al., 2019; Gerardo B.

S. Dewangga, 2020; Maharani & Merkusiwati, 2021; Rahma et al., 2022; Stefani & Paramitha, 2022; Susanto & Veronica, 2022) as well as disclosure sustainability against tax avoidance (Nuramalia et al., 2021; Stefani & Paramitha, 2022; Tarigan & Samuel, 2015) in Indonesia is already underway, however not yet anyone specifically analyze sustainability performance dimensions operational against tax avoidance. Second, this research measures sustainability performance through impact environmental (i.e., energy consumption, water withdrawal, greenhouse gas emissions and total waste weight) and social (level injuries and female employees) that can be measured. This is different from previous studies that measure sustainability performance through disclosure and aggregated environmental, social and governance (ESG) scores (Nuramalia et al., 2021; Stefani & Paramitha, 2022; Tarigan & Samuel, 2015). Third, results this research shows that dimensions operational from sustainability performance generated from a sense of responsibility company to stakeholders, so that the better the OSP shows the better the responsibility company to the stakeholders including in terms pay taxes. Under these conditions, the company will be more obedient in paying taxes and minimize tax avoidance efforts.

LITERATURE REVIEW

In Katoppo & Nustini (2022) stakeholder theory began to develop after being introduced by Freeman in 1984. This theory states that a company is an entity that operates not only to prioritize personal interests, but also to provide benefits for its stakeholders. According to Donaldson & Preston (1995) in Ramadhan (2021), stakeholder theory reveals that performance in a company is greatly influenced by the existence of stakeholders from the company, so that management has an obligation to provide benefits to all its stakeholders. According to Daud & Amri (2008) revealed that stakeholders not only include shareholders

and business people, but can include other groups or individuals such as customers, creditors, suppliers, government, employees, and others who own interrelationships with all parts operational company. Fulfillment sustainability performance and tax compliance are embodied responsibility company to stakeholders' interest in a theoretical framework stakeholders' interest.

Astuti & Aryani (2016) collect several definitions of tax avoidance as follows :

1. According to Lin (2010) tax avoidance is an effort tax savings by leveraging legally enforceable tax provisions intended to minimize tax burden.
2. According to Dyreng et al (2008) tax avoidance is an activity in any form that has an impact on tax obligations, both activities that are permitted in tax provisions and special activities carried out to minimize taxes.
3. According to Masri (2013) tax avoidance is a part that is included in tax planning which is done to reduce tax burden.

Based on several definitions of tax avoidance above, it can be concluded that tax avoidance is an effort tax savings made by utilizing gap existing law so that it can be legally carried out to minimize tax burden.

Sustainability performance lots defined by several experts, including Bisig & Hummel (2017) and Tarigan & Samuel (2014). Adopt Trumpp et al., (2015) study Bisig & Hummel (2017) defines performance is a multi-dimensional form that includes responsibility social, economic, and environment. Whereas according to Tarigan & Samuel (2014) sustainability performance (sustainable performance) is a performance that is produced from balancing three important aspects known as the Triple Bottom Line concept, namely people-planet-profit. (Elkington, 1997) in Lindawati & Puspita (2015) revealed that the concept of 3P (Triple Bottom Line) is results shift draft a business that was originally single P. But understanding the meaning of value this business is growing along with the times, where 3P (Triple Bottom Line) consists of economic prosperity, environmental quality, and social justice. According to Nugroho (2009) in Sulistyawati & Qadriatin

(2019) reveals that now objective the company is not only focused on searching profit (profit), but also pay off responsibility to the community (people) and guarantee continuity living earth (planet). In Bisig & Hummel (2017) related to measurement performance sustainable, the literature agrees that sustainability performance can be divided into two dimensions, viz operational dimensions, and management dimensions. On operational dimensions performance focused on measurable results, including aspects of the environment namely total greenhouse gas emissions, employee turnover, total waste generated, and in social aspects namely level injured. While the management dimension performance focuses on sustainability policies, structures, and processes.

Bisig & Hummel (2017) said that connection between sustainability performance and tax avoidance by angle view stakeholder theory suggests connection negative between sustainability performance and tax avoidance. Theory stakeholders interest disclose that company own responsibility social towards employees, environment, and society. This responsibility is borne with minimization externality environmental and social company and continue to pay taxes as they should. By paying taxes to the government, that company has accountable to society fairly.

Research conducted by Hendrani et al (2022) has results that sustainability performance has influence negative for tax avoidance. In line with research conducted by Bisig & Hummel (2017) shows results that There is negative relationship between sustainability performance operations with tax avoidance. So, this research determines the following assumptions:

H1: *Operational sustainability performance has a negative association with company tax avoidance.*

DATA AND RESEARCH TECHNIQUE ANALYSIS

The population used in this study are companies in the consumer non-cyclicals sector, consumer cyclicals, and the energy sector which are listed on the Indonesia Stock Exchange for the 2019-2021 period. The samples in this study are companies in the consumer non-cyclicals sector, consumer cyclicals, and the energy sector which are listed on the Indonesia Stock Exchange for the 2019-2021 period which have passed several specified criteria. Total population company sector non-cyclicals consumer listed on the Indonesia Stock Exchange for period 2019-2021 is as many as 333 companies. Total population company sector consumer cyclicals listed on the Indonesia Stock Exchange for period 2019-2021 is as many as 420. While the total population company the energy sector listed on the Indonesia Stock Exchange during period 2019-2021 is as much as 228. After passing these requirements and carrying out analysis of outliers related to requirements analysis of research data, obtained a sample of 106 firm-years (table 1).

Table 1
Sampling Criteria

No	Sample Criteria	Amount
1	Number of Companies in the <i>Non-Cyclicals Consumer Sector, Consumer Cyclicals</i> and Energy Listed on the Indonesia Stock Exchange	326
2	Company Data for <i>Non-Cyclicals Consumers, Cyclicals</i> and Energy Consumers Listed on the Indonesia Stock Exchange for the 2019-2021 Period	978
3	Company Data for <i>Non-Cyclicals Consumers, Cyclicals</i> and Energy Consumers that Experience Losses for the 2019-2020 Period	(243)
4	Company Data for <i>Non-Cyclicals Consumers, Cyclicals</i> and Energy Consumers Who Do Not Publish Annual Reports and Sustainability Reports for the 2019-2021 Period	(214)
5	Incomplete Data	(386)
	The number of samples that meet the criteria	135
	Outliers	(29)
	Number of samples processed	106

Source: *Processed data, 2023*

To test the research hypothesis the following models are used:

$$CETR_{it} = \beta_1 + \beta_2 OSP_{it} + \beta_3 SIZE_{it} + \beta_4 INTOWN_{it} + \varepsilon_{it}$$

OSP_{it} is sustainability performance n operational as measured using dimensions environment and social. Dimensions environment measured by the level of energy consumption, water withdrawal, greenhouse gas emissions and total waste weight and dimensions social measured by level injuries and female employees. Energy consumption is measured of total direct and indirect energy consumption divided by total sales. Water withdrawal is measured of total water withdrawal divided by total sales. Greenhouse Gas Emissions are measured of total CO₂ emissions and CO₂ equivalent in tons divided by total sales. The total weight of waste is measured of total waste generated divided by total sales. Injury level be measured of the total injury presentation. Female employee be measured from percentage of total female employees. OSP_{it} is the average of the dimensions above, because the greater the mean value indicates sustainability performance operations are getting worse, so for data analysis the value is multiplied by -1.

According to Moeljono (2020) tax avoidance is a scheme or legal activity that is carried out to minimize tax burden by the way tax planning if it does not violate limitations that have determined. Proxy The measurement used in this study is the calculated Cash Effective Tax Rate (CETR) of tax payments divided by profit before tax. CETR is cash effective tax rate which is calculated by comparing the company's tax payments to the profit it generates before taxes. CETR can be used for proxies' variable measurement of tax avoidance because CETR assesses tax payments listed in the cash flow statement, so that taxes that have been paid can be known.

Lastyanto & Setiawan (2022) explains that ownership institutional is proportion ownership owned by an institution, be it a bank, insurance, pension fund, investment company or other institution. Proxy the measurement used in this study ($INTOWN_{it}$) is percentage ownership the

shares owned by the institution compared to the shares outstanding which are calculated as a percentage from the proportion of total shares owned by top institutions share circulating.

In Sonia & Suparmun (2019) company size is a measure how big is the company and how are the operational activities as well income company. Proxy The measurement used in this study is the natural logarithm of total assets. The natural logarithm of total assets can be proxied as a measurement company size variable ($SIZE_{it}$) because by using the natural logarithm, large total assets can be simplified without changing the proportion of actual total assets.

The regression model above is then estimated using Ordinary Least Square (OLS). Research hypothesis proven if coefficient β_2 in the above model is worth negative and significant. It shows that operational sustainability performance relates negatively with corporate tax avoidance as a manifestation from responsibility company to its stakeholders within the theoretical framework stakeholders' interests.

RESULT AND DISCUSSION

Table 2 shows the descriptives statistics. The standard deviation for OSP and INTOWN is greater than the average, so the data for these variables are concluded to be quite diverse, but for CETR and SIZE, the standard deviation smaller from the average, then the data for the variable is concluded not enough various. Normality test has done for those data and have meet the assumption of normality of data.

Table 2
Descriptive statistics

	N	Min	Max	Means	std. Dev
CETR	106	.00	.52	.2002	.12587
OSP	106	-.50	99.24	2.5260	10.76635
SIZE	106	23.89	32.82	29.2184	1.50349
INTOWN	106	.05	1.00	.6832	.20266

Source: Data processed with SPSS, 2023

Based on results from the partial test (Table 3) can be known that operational sustainability performance company own level significant 0.027 is not enough of

0.05 and t count of -2.243 > t table 1.98304. That is, the research hypothesis reads operational sustainability

Table 3
Regression Results

	Coefficient	t-stat	Sig.
Constant	0.522	2.175	0.032
OSP	-0.148	-2.527	0.013
SIZE	-.002	-2.243	0.027
INTOWN	-.007	-.0924	0.358
F- stat: 3,786			
Sig.: 0.013			

Source: Data processed with SPSS, 2023

performance influential negative and significant to tax avoidance received. This means getting higher sustainability performance, the lower the tax avoidance will be company.

Sustainability performance in this study is reflected in measurements using several indicators, including energy consumption, water withdrawal, greenhouse gas emissions, injuries, and the percentage of female employees. The more energy consumption, water withdrawal, and greenhouse gas emissions then indicated that company bad at performing sustainability. This is because energy consumption, water withdrawal and greenhouse gas emissions are causing negative effects for society, the environment, and the economy. And vice versa, low energy consumption, water withdrawal and greenhouse gas emissions reflect sustainability performance good company. It is the same with the third indicator above, indicator injury may also reflect sustainability performance company, the less employee injury to the company indicate that company has mature in implementing OSH and programs related to employee safety, so this reflects performance good sustainability for the company.

In contrast to the previous indicators, there are more and more female employees will reflect performance good sustainability in terms of tax avoidance. In Rhee & Kim (2019) reveals that continuity company increase in terms of tax evasion by evading risk and conservative environment for female employees. In his research also explained that proportion ownership women can influence the company in decision making one decision i.e., not doing tax evasion. so that the high

proportion of female employees can be used as a measurement that sustainability performance will be higher and tax avoidance will be lower.

Some of the above indicators reflect operational sustainability performance company against tax avoidance with the proposed hypothesis that is accepted ownership operational company effect on tax avoidance. This research is in line with research conducted by Bisig & Hummel (2017) which shows results that There is negative relationship between sustainability performance operations with tax avoidance. According to Bisig & Hummel (2017), said that connection between sustainability performance and tax avoidance by angle view stakeholder theory suggests connection negative between sustainability performance and tax avoidance. stakeholder theory reveals that company own responsibility social towards employees, environment, and society. By paying taxes to the government, companies considered responsible accountable to society fairly.

In terms of financing, companies with sustainability performance high operational will be less likely to do tax evasion. This causes because activities responsibility social and environmental company will incur costs reduce profit company, which resulted in its smallness tax burden paid company. So that the company continues to pay taxes as it should. For example, when a company pays for K3 employees, level accidents that occur to employees will be few. This lower accident rate is indicative performance the higher the sustainability, on the other hand the tax burden is borne company small Because generated profit company reduce because of K3 costs.

CONCLUSION

Research results show operational sustainability performance company own influence negative to avoidance tax. Stakeholder theory reveals that companies have a social responsibility towards employees, the environment and society. By paying taxes to the government,

companies are considered to have a fair responsibility towards society. That is, tax avoidance will decrease as performance increases continuity operational company.

IMPLICATION AND LIMITATION

This study has several limitations that can be taken into consideration by other researchers as follows: (1) This study only uses aspects operational sustainability performance in explaining its effect on tax avoidance. Further research is suggested analyze another dimension of sustainability performance that is sustainability performance management so as to better explain the relationship sustainability performance with more comprehensive tax avoidance ; (2) This research only covers three sectors that is energy sector , consumer non-cyclicals, consumer cyclicals sector , and the energy sector listed on the Indonesian Stock Exchange and many the registered company does not publish the required data namely the annual report and a complete sustainability report. Future research can conduct a more comprehensive analysis for all sectors companies listed on the Indonesian stock exchange; and (3) this research uses the method due to OLS estimation limited research data, so it happened chance of an upper bias results research. Future research can use the method of a more precise estimate, for example using a panel regression model.

Despite all limitations research, this research was successful show that dimensions operational from sustainability performance generated from a sense of responsibility company to stakeholders, so the better the dimension operational from sustainability performance show better responsibility company to the stakeholders including in terms pay taxes. Under these conditions, the company will be more obedient in paying taxes and minimize tax avoidance efforts.

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