Original Research Article
The impact of Earning Management, Tax Avoidance, Leverage, on Firm Performance, moderated by GCG

ABSTRACT

Aims : to test and analyses the effect of Earning Management, Tax Avoidance and Leverage on Firm Performance moderated by Good Corporate Governance (GCG).
Study Design: This research uses a qualitative causality method that relies on secondary data collection from the Indonesian Stock Exchange.
Place and Duration of Study: Manufacturing Companies listed on the Indonesia Stock Exchange from 2015 to 2019.
Methodology: the research uses purposive sampling method and found 52 companies that meet the required criteria during the observation period, 260 observed data. The data analysis using multiple regression models assisted by E-Views version 12.0 program.
Results: it shows that Earning Management, Tax Avoidance and Leverage have no significant effect on Firm Performance, while GCG (with proxy Independent Board) only moderates the effect of Leverage on Firm Performance, while not moderating the effect of Earning Management and Tax Avoidance on Firm Performance.

The implication of the research is that companies are not advised to use Earning Management and Tax Avoidance as an effort to improve Firm's Performance and consider the role of GCG in the use of Leverage to improve Firm Performance.

Key Words: Earning Management, Tax Avoidance, Leverage, GCG, Firm Performance

1. Introduction

Research on corporate performance dominates most research on business and finance, this is because the end point of all business journeys boils down to performance. All stakeholders always base all decisions they will take based on the company's performance. On a macro level, companies that have good performance will contribute to increasing economic development. One indicator of company performance is Firm Value.

The factors that affect the company's performance (Firm Value) are many, but the following 3 variables are still controversial in the results of previous studies, namely Earning Management, Tax Avoidance and Leverage. Research by Tria & Amri (2020), Umobong & Ogboma (2017), Kabiru & Aliyu (2019), Goran et al (2013), Rejvan et al (2011) states that Earning Management has no effect on Firm Value, opposite results are found in Clement and Adzor (2017). Tax Avoidance has a negative effect on Firm Value found in Silvio & Amary (2016), Liu et al (2015), Chen et al (2018), with a positive effect on Rachmawati et al (2019) and negative and positive results found in Nguyen et al. al (2020) and the results have no effect on the study of Marisa and Timbul (2019). Leverage has a significant effect on Firm Value found in Divya & Purna (2017), Adenugba et al (2016), Ardina Isnalita (2018), Umar & Abdul (2020), Athens et al (2013), and has no effect on Sanjay & Pradeep (2016), h M. Daffa et al (2020) and mixed results on Meragel & Senadhera (2016).

On the other hand, the implementation of Good Corporate Governance (GCG) will ensure that the interests of all stakeholders are accommodated by management which is

mechanism controlled by GCG instruments, including the existence of an Independent Board. Practically the management in implementing policies related to Earning Management, Tax Avoidance and Leverage is moderated by the Independent Board.

Based on the importance of Firm Value and the inconsistency of related research results and the relationship between variables, this research is entitled the impact of Earning Management, Tax Avoidance, Leverage, on Firm Performance, moderated by GCG (Empirical Study of Manufacturing Companies listed on the Indonesia Stock Exchange 2015-2019).

2. Literature Review

2.1. Agency Theory

Agency theory emerged as a response to agency problems between shareholders (principals) and management (agents) because rewards for management reduce shareholder wealth, so a formulation that can reconcile these two interests is needed. Agency theory explains how this agency problem arises and strategies to overcome it. (Jensen and Meckling, 1976). As an agent, the main task of management is to provide the best return for shareholders, one indicator of which is Firm Value (Brigham, Eugene F; Houston, Joel F, 2004).

2.2. Stakeholder Theory

Freeman and Mc Vea (2001) explains: "Stakeholders any group or individual who can affect or is affected by the Achievement of the organization objectives". Based on this understanding, management in creating added value for shareholders must consider that this added value is also beneficial for other stakeholders. Stakeholder theory relates to management strategies to meet the interests of stakeholders which is operationally carried out by implementing Good Corporate Governance (GCG).

2.3. Capital Structure Theory

Theories about capital structure in its influence on firm value are grouped into: 1) capital structure has an effect on firm value promoted by Durand and 2) capital structure is not relevant to firm value promoted by Modigliani and Miller. Each approach, both Durand and MM, is based on certain assumptions to simplify the conditions of reality which in practice are usually different. MM's work has become phenomenal with controversial assumptions, where when these assumptions are raised one by one in the model, the results of the analysis are contrary to the postulates presented so that the capital structure does matter on Firm Value.

2.4. Firm Value

The success of management in managing the company can be measured based on accounting (accounting based) and based on market assessment (market based) (Al-Matari et al., 2014), where accounting based is based on the ability to earn profits as measured by profitability ratios, while market based on market value which can be measured among others by the Tobin's Q formula, Market to Book Value (MTBV), Market Value Added (MVA). From various market-based measurements, the Tobin's Q formula is widely used by researchers as a proxy for company value which is calculated as the ratio of the company's total market value divided by the company's total asset value (Hayes, 2019).

2.5. Earning Management

Earning Management is the process of taking actions that are still within the limits that are still permitted by Generally Accepted Accounting Principles (GAAP) Davidson et al. (1987) in Schipper (1989). EM occurs when management uses judgment to change financial statements to obscure the company's economic performance (Healy and Wahlen (1999) which is done in 3 ways, namely compiling certain revenue or expense transactions, changing accounting procedures and or accruals management (Roodposhti and Chashmi (2011)). The majority of researchers detect the existence of EM with Accruals Management. Some of the reasons for EM activities include influencing investor perceptions in the capital market to increase compensation, to reduce the possibility of violating credit agreements or to avoid legal problems (Healy & Wahlen, 1999; Teoh, Welch & Wong, 1998) EM will affect the company's prospects in the future where the majority of studies show that EM has a negative effect on long-term company performance Earning Management has an effect on Firm Value (H1).

2.6. Tax Avoidance

Tax Avoidance is one of the company's strategies for reducing formal tax obligations through legal tax savings activities (Hanlon and Heitzman, 2010). Technically, tax avoidance is done by reducing, delaying or avoiding tax obligations at a certain time. Basically, tax avoidance actions taken by the company will have direct and indirect consequences, both positive and negative, on

shareholder wealth (Silvio & Amaury, 2016). To detect Tax Avoidance actions by companies, there are 3 methods to measure Tax Avoidance, namely 1) Effective Tax Rate Based Measures, (1.1.) Annual ETR Measures (GAAP ETR, Current ETR Cash Effective Tax Rate (Cash ETR),) 1.2) Long-Run ETR Measure), 2) Henry and Sansing's HS measures and 3) Book-Tax-Differences Based Measures. (Markus, 2017), which of these 3 models the ETR model is widely used by researchers as well as this study. Tax saving activities legally allow the transfer of wealth from the government to shareholders through increasing net income, therefore one of the reasons for tax avoidance is to increase firm value (Firm Value). Tax Avoidance has an effect on Company Value (H2).

2.7. Capital Structure/Leverage

Capital structure (CS) is related to the proportion between long-term debt and capital or total assets owned by the company on a certain date (Titman, Keown, Martin, 2014). The growing company causes the company to require external funds as a source of financing if internal sources (capital) are insufficient. Policies related to the capital structure will have a direct impact on the welfare of shareholders, thereby affecting the Company Value. Capital structure has an effect on firm value (H3).

2.8. Good Corporate Governance

The International Finance Corporation (IFC) defines Good Corporate Governance (GCG) as "the structures and processes for the direction and control of companies". GCG is a system that regulates and controls the company in creating added value (value added) for all stakeholders (Monks, 2003) which is theoretically based on the principles: Transparency, Accountability, Responsibility, independence and Fairness (Chinn, 2000). Given that management is the party that applies GCG principles, supervision is a must, which is characterized by the existence of an independent board and institutional ownership. The proxy for the GCG mechanism in this study is the existence of an independent board. Organizationally, the Independent Board will oversee all management actions including Income Smoothing, Tax Avoidance and Leverage policies; therefore the independent Board moderates the effect of profit, tax and financing policies on value creation for stakeholders. GCG moderates the effect of Earning Management on Firm Value (H4), GCG moderates the effect of Tax Avoidance on Firm Value (H5) and GCG moderates the effect of Leverage on Firm Value (H6).

The relationship between variables will appear in the following picture:

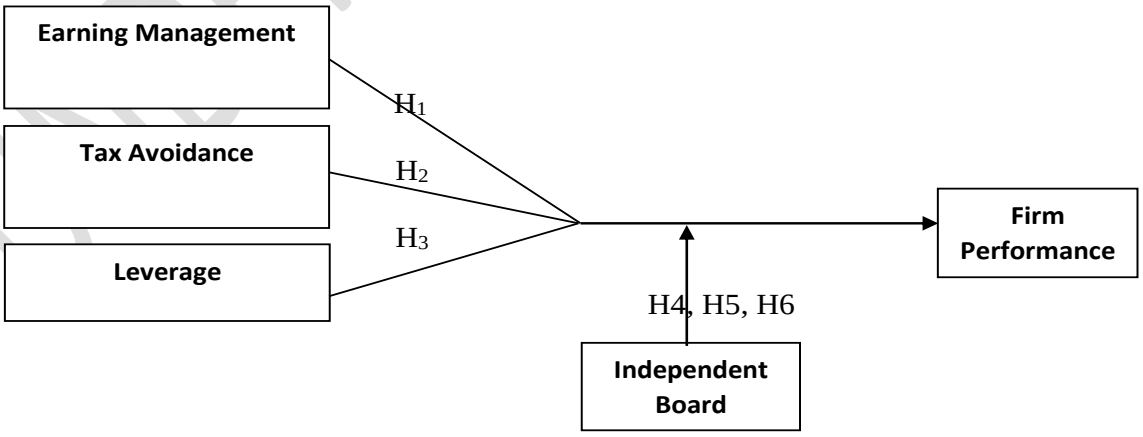

Figure 1 Thinking Framework

3. Methodology

The type of research is explanatory research that involves a causal relationship with the aim of testing the hypothesis about the effect of the independent variables, namely Earning Management, Tax Avoidance and Leverage on the dependent variable, namely Firm Performance, moderated by the Good Corporate Governance mechanism with the Independent Board proxy.

The research population is manufacturing companies listed on the Indonesia Stock Exchange during the period 2015 to 2019, with sample criteria: a) consistently publishing complete annual financial reports, b) financial statements expressed in rupiah currency, c) earning profits during the year of observation.

Of the 185 listed companies, 52 companies have met the criteria, so the total observation unit is 260 observation units.

Because it involves panel data, the analysis uses multiple regression assisted by the E-Views version 12.0 program through the following stages: a) Descriptive Statistical Analysis, b) panel data regression estimation model, c) panel data regression selection model, d) classical Assumption Test if needed and e) hypotheses test, comprising: Determination Coefficient Analysis (R2), Statistical F Test, t-Test and multiple linear regression analysis.

4. Results and Discussion

4.1. Results

4.1.1. Descriptive statistics

Table 1 Statistic Descriptive Test Result

Description	FP	EM	TA	LEV	IB
Mean	2.227229	-0.011584	0.523184	0.271197	0.406955
Median	1.226141	-0.013981	0.271806	0.120599	0.363636
Maximum	23.28575	0.336573	31.78402	6.753299	0.800000
Minimum	0.146884	-0.202224	-0.417455	0.000105	0.200000
Std. Dev.	2.948670	0.070056	2.029983	0.665006	0.105733
Skewness	3.792481	0.766821	14.23868	8.036449	1.394467
Kurtrosis	20.03236	5.874539	218.2152	72.06530	5.369122
Jarque-Bera	3766.024	114.9962	510559.4	54473.83	145.0680
Probability	0.00000	0.00000	0.00000	0.00000	0.00000
Sum	579.0796	-3.011905	136.0280	70.48786	105.8082
Sum Sq.Dev.	2251.915	1.271115	1067.296	114.5384	2.895474
Observations	260	260	260	260	260

Source: 2022, 12.0 Version E-Views Output

Number of samples. Table 1 explains that the sample is 52 companies with 5 years of observation, starting from 2015 to 2019, so that there are 260 units of observation which are explained by Firm Value (FV), Earning Management (EM), Tax Avoidance, Leverage (LEV) variables) and the Independent Board (UB).

Firm Performance (FP). The minimum FP value is 0.146884 owned by PT Ultra Jaya Milk Industry in 2018 and the maximum is 23.28575 at PT Unilever Indonesia Tbk. in 2018 with an average value of 2.227229 and a standard deviation of 2.948670.

Earning Management (EM). EM has a maximum value of 0.336673 found at PT HM Sampoerna Tbk in 2015 and a minimum of -0.203334 PT Wilmar Cahaya Indonesia Tbk in 2019, the average value is -0.011584 and standard deviation is 0.070056.

Tax Avoidance (TA). While the TA has a minimum value of -0.417455 at PT Duta Pertiwi Nusantara Tbk in 2019, a maximum of 31.78402 PT Voksel Electric Tbk in 2015 with an average of 0.523184, standard deviation 2.029983.

Leverage (Lev). The maximum lev value of 6.753299 is owned by PT Unilever Indonesia Tbk in 2018, the minimum value of 0.00015 is PT Petrochem Tbk in 2019.

Independent Board (IB). IB has a minimum value of 0.200000 at PT Kimia Farma Tbk in

2016, PT Semen Baturaja (Persero) Tbk in 2017 and a maximum of 0.8000 at PT Unilever Indonesia from 2015 to 2019 with an average of 0.40 and standard deviation 0.105733.

4.1.2. Panel data regression model estimation

Based on data processing with E Views version 12.0, the following results from the estimation of the regression model of the Common Effect, Fixed Effect and Random Effect models are presented as in tables 2 which meet the requirements of Goodness of Fit shown in the probability value of F-Statistics below 0.05, as following :

Table 2. Panel Data Regression Model

Item Score	CE Model	FE Model	RE Model
R-squared	0.405640	0.832552	0.409776
Adjusted R-squared	0.391544	0.785301	0.395778
S.E. of regression	2.300068	1.366283	1.368143
Sum squared resid	1338.449	377.0793	473.5690
Log likelihood	-581.9401	-417.2546	
F-statistic	28.77795	17.62005	29.27510
Prob(F-statistic)	0.000000	0.000000	0.000000
Mean dependent var	2.227229	2.227229	0.688109
S.D. dependent var	2.948670	2.948670	1.760083
Akaike info criterion	4.530308	3.655805	
Schwarz criterion	4.626173	4.450111	
Hannan-Quinn criter	4.568847	3.975126	
Durbin-Watson stat	0.469398	1.610637	1.269104

Source: 12,0 Version E-Views output

CE : Common Effect, FE= Fixed Effect, RE= Random Effect

4.1.3. Panel data regression model selection

The panel data regression model selection was carried out using the Chow test, Hausman test and the Lagrange Multiplier test (if needed). Here are the test results for each.

The Chow test was conducted to select the best model between the Fixed Effect Model and the Common Effect Model with the following hypothesis:

H0: Common Effect Model
H1: Fixed Effect Model

H0 will be rejected if the probability of Cross Section Chi-Square (P-value) < (α = 5%) and will be accepted otherwise, and the data from the Chow test results are shown in table 3.

Redundant Fixed Effects Tests		
Equation: Untitled		
Test cross-section fixed effects		

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.098082	(51,202)	0.0000
Cross-section Chi-square	329.370911	51	0.0000

Source: 12,0 version E-Views Output

Table 3 shows that the Cross-Section Chi-square Probability is 0.0002 < 0.05, therefore the model chosen is the Fixed Effect Model. To obtain the best model, the Hausman test compares the Fixed Effect and Random Effect Model with the following hypotheses:

H0: Random Effect Model
H1: Fixed Effect Model
The best model decision is made with the following conditions: if the Chi-Square Cross Section (P-value) < 0.05, Ho is rejected and vice versa if the Chi-Square Cross Section probability (P-value) > 0.05, H0 is accepted

Table 4 Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.689154	6	0.3506

Source: 12,0 version E-Views Output

The Hausman test results are shown in table 4 above where it shows that the probability of the Cross Section Chi-square Probability (P-value) is 0.3506 > 0.05, therefore the Random Effect model is the best model. Because the Chow and Hausman tests get different results, the Lagrange Multiplier test is needed.

The Lagrange Multiplier test compares the Common Effect and Random Effect models with the hypothesis: H0 : Common Effect, H1 : Random Effect.

The selection of the best model is decided with the following conditions: if Cross Section Chi-Square (P-value) < 0.05, Ho is rejected and vice versa if the probability of Cross Section Chi-Square (P-value) is > 0.05, H0 is accepted. The results of the Lagrange Multiplier test using the Breush Pagan method are shown in table 5 below.

Table 5 Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided			
(all others) alternatives			
	Test Hypothesis		
	Cross-section	Time	Both

Breusch-Pagan	200.2214	0.482677	200.7041
	(0.0000)	(0.4872)	(0.0000)

Source: 12,0 version E-Views output

From the table above, it shows that the Breusch Pagan value is = 0.0000 <0.05, thus H0 is rejected and H1 is accepted, the best model is the Random Effect model. The summary of test results for model selection is shown in table 6 below:

Table 6. Summary of Model Selection Test Results

Type of Selection Test	Model Comparison	Selected Model
Chow	Fixed Effect Vs Common Effect	Fixed Effect
Hausman	Fixed Effect VS Random Effect	Random Effect
Lagrange Multiplier	Common Effect VS Random Effect	Random Effect

Source: processed data

Based on the table above, the selected model is a Random Effect as presented in table 4 above which is completely presented again in table 7 below:

Table 7 Random Effect Model

Dependent Variable: FV				
Method: Panel EGLS (Cross-section random effects)				
Date: 07/12/22 Time: 14:58				
Sample: 2015 2019				
Periods included: 5				
Cross-sections included: 52				
Total panel (balanced) observations: 260				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.918637	0.310510	6.178979	0.0000
EM	-3.421257	5.969953	-0.573079	0.5671
TA	0.292490	0.827869	0.353304	0.7242
LEV	-1.427850	1.375387	-1.038145	0.3002
EM*IB	-1.212515	14.36294	-0.084420	0.9328
TA*IB	-0.823847	2.072688	-0.397477	0.6914
LEV*IB	4.959484	1.754755	2.826312	0.0051
	Effects Specification			
			S.D.	Rho
Cross-section random			1.880958	0.6546
Idiosyncratic random			1.366283	0.3454
	Weighted Statistics			
R-squared	0.409776	Mean dependent var		0.688109
Adjusted R-squared	0.395778	S.D. dependent var		1.760083
S.E. of regression	1.368143	Sum squared resid		473.5690
F-statistic	29.27510	Durbin-Watson stat		1.269104
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.388151	Mean dependent var		2.227229
Sum squared resid	1377.832	Durbin-Watson stat		0.436199

Source: 12,0 version E-Views output

4.1.4. Classical assumption test

Because the selected model is a Random Effect model where the approach used is Generalized Lease Square (GLS), then the classical assumption test is no longer needed (Indra, 2018).

4.1.5. Hypothesis Testing

4.1.5.1. Coefficient of Determination

The adjusted S Square value is 0.395778, meaning that all independent variables consisting of Earning Management, Tax Avoidance, Leverage, GCG are able to explain the dependent variable, namely Firm Performance of 39.57%, below 50%, therefore the effect is weak.

4.1.5.2. F Statistic Test (Goodness of Fit)

Because the F value is 29.27510 with a probability of 0.000000 < 0.05, it is concluded that all independent variables, Earning Management, Tax Avoidance, Leverage and the moderating variable, namely GCG, which together affect Firm Performance so that the model is declared 'fit'.

4.1.5.3. Partial Test (t test statistic)

It appears that GCG with the Independent Board proxy) is able to moderate the effect of Leverage (Lev) on Firm Performance, while Earning Management, Tax Avoidance, Leverage have no significant effect on Firm Performance and the Independent Board is unable to moderate the effect of Earning Management and Tax Avoidance on Firm Performance.

4.1.6. Multiple Regression Analysis

From table 8 of the Random Effect model, the regression equation is formed as follows:

Firm Performance (Y)= 1,918637 – 3,421257 EM +0,292490 TA-1,427850 LEV-1,212515 EM*IB-0,823847 TA*IB+ 4,959484 LEV*IB.

The constant value is 1.918637, when Earning Management, Tax Avoidance and Leverage do not change (value 0), then Firm Performance is 1.918637.

The EM coefficient is negative at 3.421257, meaning that when the other independent variables are constant, an increase in EM of 1 unit will decrease Firm Performance by 3.421257 and vice versa.

The positive TA coefficient is 0.292490, meaning that when the other independent variables are constant; an increase in TA of 1 unit will increase the FV by 0.292490, and vice versa.

The negative LEV coefficient is -1.427850, explaining that when the other independent variables are constant, an increase in LEV of 1 unit will decrease FP by 1.427850, and vice versa.

The moderating coefficient of IB on EM against FP is negative 1.212515, meaning that if other variables are constant, then an increase of 1 unit of effect of IB moderation on EM on FP will decrease FP by 1.212515, and vice versa.

The IB moderation coefficient on the effect of TA on FP is negative of 0.823847, meaning that if the other variables are constant, then an increase of 1 unit of IB moderation on TA on FP will decrease FP by 0.823847, and vice versa.

The IB moderation coefficient on the effect of LEV on FP is positive at 4.959484, meaning that if the other variables are constant, then an increase of 1 unit of IB moderation on the effect of LEV on FP will increase by 4.959484, and vice versa.

4.2. Discussion

4.2.1. The Effect of Earning Management on Firm Performance

Earning management has no significant effect on Firm Performance, this is likely to happen because Earning Management activities usually include unusual activities that are only carried out when conditions are forced which causes the company to be forced to carry out this activity. The forced conditions, for example, companies experiencing financial difficulties that require all means for rescue. This research contradicts the statement that EM will affect

the company's prospects in the future, but it is in line with the studies of Tria & Amri (2020), Umobong & Ogboma (2017), Kabiru & Aliyu (2019), Goran et al (2013), Rejvan et al (2011).

4.2.2. The Effect of Tax Avoidance on Firm Performance

Tax Avoidance does not have a significant effect on Firm Performance, this is contrary to the statement that tax avoidance actions taken by the company will have direct and indirect positive or negative consequences on shareholder wealth (Silvio & Amaury, 2016) but in line with Marisa and Timbul's research (Silvio & Amaury, 2016) 2019). The explanation that can be conveyed is that Tax Avoidance is also an un-usual activity and is generally carried out when the company is experiencing financial difficulties, therefore Tax Avoidance has no effect on Firm Performance.

4.2.3. The Effect of Leverage on Firm Performance

Leverage has no effect on Firm Performance; this is contrary to the theory statement that policies related to capital structure will have a direct impact on the welfare of shareholders, thereby affecting firm value but the same as research by Sanjay & Pradeep (2016), h M. Daffa et al (2020).). The explanation that can be put forward is the possibility that majority of companies have obtained optimal Leverage so that Leverage no longer affects Firm Performance.

4.2.4. Independent Board moderates the effect of Earning Management on Firm Performance

The Independent Board does not moderate the effect of Earning Management on Firm Performance, meaning that the Independent Board does not strengthen or weaken the influence of Earning Management on Firm Performance in manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2019.

4.2.5. Independent Board moderates the effect of Tax Avoidance on Firm Performance

The Independent Board is unable to moderate the effect of Tax Avoidance on Firm Performance, meaning that the Independent Board does not strengthen or weaken the effect of Tax Avoidance on Firm Performance in manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2019

4.2.6. Independent Board moderates the effect of Leverage on Firm Performance

The Independent Board moderates the effect of Leverage on Firm Performance, meaning that the Independent Board able to strengthen or weaken the influence of Leverage on Firm Performance in manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2019.

5. Conclusion and Suggestions

5.1. Conclusion

The results of the study conclude that: Earning management, Tax Avoidance and Leverage have no significant effect on Firm Performance, while the Independent Board does not moderate the effect of Earning Management and Tax Avoidance on Firm Performance and only the Independent Board is able to moderate the effect of Leverage on Firm Performance.

5.2. Suggestions

The results show that Earning Management and Tax Avoidance have no significant effect on the Firm Performance of manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2019; therefore it is advisable for companies not to use Earning Management and Tax Avoidance activities as an effort to improve Firm Performance.

The results also show that Leverage has no significant effect on Firm Performance, possibly because the company has experienced optimal leverage, therefore in an effort to improve Firm Performance the company must consider Leverage that is not optimal in an effort to improve Firm performance. Meanwhile, the Independent Board moderates the influence of Leverage on Firm Performance, therefore in an effort to improve Firm Performance from the Leverage factor, it must consider the Independent Board as a variable that can strengthen or weaken the influence of Leverage on Firm Performance.

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