

# CHAPTER I INTRODUCTION

## 1.1 Background of the Study

Companies are built by the organization or individual to maximize the shareholder's wealth. Wealth of shareholders referred to the stock price and net profit for dividend paid. To achieve this, company has to view point of its firm performance. Management of firm to achieve targeted value is depend on management team. According to Wahyudi and Pawestri (2006), family company is trusted to have ability for influencing the company's operation, that ultimately holds the great impact to achieve company's objective on firm performance, which is maximizing the company's value. Family company's performance is better than non-family company, for both profitability and financial structures (Allouche, Amann, Jaussaud, & Kurashina, 2008).

In 2008, Bill Gates was talking about the importance of companies and environment interactions on Davos (World Economic Forum). He stated comparing the minorities of women in society in the past and present, the life expectancy has nearly doubled during the last 100 years, and the economic freedom; those crucial areas proved the world is getting better, and everyone have responsibility to improve the world. Gates (2008) created an idea called "creative capitalism", an approach where governments, companies, and non-profit organizations work together to ease the world's inequities. Gates, among others, believes CSR is characteristically related to creative capitalism, it has an integral relation when planning the socially responsible activities.

In Indonesia, the government has concerned the environment problems for a long time. Law of Republic Indonesia no. 40 year 2007 about limited liability company stated that the law regulated company's operation related to nature resources should take responsibility of the society and environmental. CSR practices must report in sustainability report whether it is family or non-family companies. Hence, Law of Republic Indonesia no. 47 year 2012 about social and environmental responsibility of limited liability companies, stated that budget report and sustainable social activities plans are required by companies' board of directors. If the companies violate the relevant regulations, sanction will be applied to the violator. Meanwhile, the companies whom obey the regulation, it will receive incentives. The implementation of CSR in Indonesia is not as rapid as developed countries, because environment, economics, and communities differences, that lead the level of ambiguity in the law and also weaken the law's enforcement.

Since the principal operated, corporation can harness another law regulation which Law of Republic Indonesia No. 93 year 2010 explained CSR expenditures in form of donation and/or any expenses written in the regulation could be deducted from gross income with some requirements, such as donation for national disaster, research and development, educational facilities, social infrastructure development costs. From both regulations, corporation in Indonesia can implement CSR and tax avoidance strategies at the same time. Tax avoidance is a management reducing tax liability legally with looking for the weakness of relevant regulations (Stewart, 2006). Tax avoidance has been discussed for a certain period and recently it has been discussed in the context of corporate social responsibility practices (Desai & Dharmapala, 2006).

This study distinguished itself from previous researches by investigating the impact of corporate social responsibility and tax avoidance on the firm performance by using sample of Indonesia companies and compare the sample data between family and non-family companies which listed on the Indonesia Stock Exchange. To be the best knowledge, no paper research find the influence of tax avoidance and CSR disclosures as independent variables on the firm performance.

A literature research examined the impact of corporate social responsibilities on tax avoidance with high firm performance as moderator variable are positively correlated (Tjondro, Widuri, & Katopo, 2016). Thus, that is necessary to do research with title **“The Impact of Corporate Social Responsibility Disclosures and Tax Avoidance on Firm Performance: Family vs Non-Family Companies in Indonesia”**

## **1.2 Problem Statement**

Companies in Indonesia are 95% dominated by family companies (Global Business Guide Indonesia, 2016). Family companies in Indonesia have a special characteristic that may differ them with family companies in other countries (Ulupui, Utama, & Karnen, 2015). In Indonesia, from the structure aspect, owner of family is possible to in-charge on manager position, which cause agency conflict between minority and majority shareholders. Logically, management in family companies and non-family companies will be different, since the most beneficial recipient is different. Family companies have higher awareness to sustain its life and earn bigger profit than non-family companies.

CGIO NUS in 2016 found nearly 50% of 100 companies in four ASEAN countries, Indonesia, Malaysia, Singapore and Thailand have committed to implement CSR and disclosed on the sustainability report. Although the quality of activities reported have not achieved half of the standard, each company have actively disclosed the sustainability report (Loh, Thao, Sim, Thomas, & Yu, 2016). Refer to the report, Indonesia's company is still lack implementing CSR activities without differ it is family or non-family companies.

In 2017, State budget of Indonesia (APBN) reported that Indonesia's revenues are divided to three main parts, which are grants, tax revenues, and non-tax revenues. Tax revenues succeed took the first place as the principal revenue of Indonesia with 85.6% of total revenues. Different with government, PSAK (Statement of Financial Accounting Standards) 46 adopted IAS (International Accounting Standard) 12 about income tax state that individual and/or cooperation who has been charged based on tax regulation, consider tax as expenses. Since it is expenses, it will decrease company's net income, there would be some effort and strategies to deduct the tax should be paid.

Although tax avoidance strategies are as old as taxes themselves (Andreoni, Erard, & Feinstein, 1998), the perpetration of tax avoidance have transmuted so exquisite in recent time. Corporate social responsibility is newest issue used for tax avoidance to attract the investor. Based on Indonesia's principal, tax paid to government is clarified as nation's income, on the other side tax is clarified as companies' expense. From the CSR regulation, company can make use of the regulations as one of the tax avoidance practices to deduct the tax to pay. Hence, CSR disclosures can also be the strategies for company to attract the investor whom

pay more attention on non-financial performance. Donation for educational facilities or national disaster can implemented by companies to help the citizen and gain companies' recognition in public.

### **1.3 Research Questions**

Depend on the background and issues explained, this research aims to answer the questions as followed:

1. Is there any different relationship between CSR disclosures and firm performance on family and non-family companies listed in ISE?
2. Is there any different relationship between tax avoidance and firm performance on family and non-family companies listed in ISE?

### **1.4 Research Objectives**

This research are aims to:

1. Examine the different relationship between CSR disclosures and firm performance on family and non-family companies listed in ISE.
2. Examine the different relationship between CSR disclosures and firm performance on family and non-family companies listed in ISE.

### **1.5 Contributions of the Study**

This research is designed to give benefits and substantially to give information to the following interested users:

1. For company

This research may provide additional information for company to do comparison of firm performance before and after making tax avoidance strategies and disclosed corporate social responsibility practices. This research may also provide information for investors the different effect on the family and non-family companies whether they were doing and practicing same strategies.

2. For investor

This research may provide relevant knowledge for investors when they would like to make decision to invest family or non-family companies. This research provides knowledge for investors, whom concern non-financial firm performance and government regulation strictly. This research may also help investors to consider the corporate governance, which may effect on shareholder's value.

3. For society

This research may provide materials for stakeholders to measure whether the companies are doing tax avoidance strategies legally and practicing social responsibility for achieve a region harmonize and prosperity.

4. For researcher

This research may expected to give more broad understanding about the different impact of tax avoidance and corporate social responsibility disclosures on family companies and non-family companies performance.

Furthermore, this research may give more assistance to the related theories

used and being used as reference for further related accounting, taxation, and management research.

## **1.6 Systematics of Writing**

Systematics of writing is the thesis' writing structure of this research. In order to comprehend this research easily, this research is designed by following the structure below:

### **CHAPTER 1 INTRODUCTION**

This chapter briefly explains about the background of the study, problem statement, research questions, research objectives, contributions of the study and systematics of writing.

### **CHAPTER II THEORITICAL FRAMEWORKS AND HYPOTHESIS**

This chapter encompasses the review of previous studies that can give the through research formation and relate to specified theories.

Those will be classified into theoretical background, literature review, hypotheses development, theoretical framework, and hypotheses.

### **CHAPTER III RESEARCH METHODS**

This chapter will focuses on describe descriptions of research design, data collection, variables and measurement, data collection techniques, and data analysis methods.

### **CHAPTER IV ANALYSIS AND DISCUSSION**

This chapter explains about the result of data testing, outlier test results, descriptive statistical analysis, panel regression test results,

and hypothesis test findings along with discussion regarding the research analysis.

## CHAPTER V CONCLUSION, LIMITATION, AND RECOMMENDATION

This chapter is the closing section which gives conclusion regarding the whole research process, gives the limitations of this research, and gives recommendation for the further studies.