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# GENDER DIVERSITY AS THE MODERATING EFFECT ON TAX AVOIDANCE, ECONOMIC VALUE ADDED, AND FIRM VALUE: A Study Of Companies Listed On Indonesia Stock Exchange 2015-2019

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***Abstract*** : *Gender diversity gives equal opportunities for women and men to occupy key positions in the company's management. This study aims to reveal the role of women sitting on the executive boards in strengthening the effect of tax avoidance and economic value added (EVA) on firm value. Model testing was carried out on 59 manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange in 2015-2019. The data were analysed using the multiple linear regression processed by Eviews. The results of this study indicate that tax avoidance has no effect on firm value, while EVA has a positive effect on firm value. Furthermore, gender diversity weakens the effect of EVA on firm value, but gender diversity is not proven to moderate the effect of tax avoidance on firm value.*

***Keywords***: *tax avoidance, EVA, firm value, gender diversity*

## 1. Introduction

The diversity in the structure of board of directors has a strong influence on the actions taken by the executive board which can ultimately affect the company's performance (Fathonah, 2018). This diversity in the board of directors can bring a positive impact because the diversity of board members might yield more alternatives solutions to a problem (Fauziah, 2018). The presence of women in the board of a company is an example of diversity which can influence the development of the board's strategies through the decision-making processes.

Gender diversity, one of the feminist issues in the workplaces, has become important as the presence of women in the board structure has proved that both women and men have equal opportunities to sit on the board and have the same rights and obligations to occupy key positions in the management (Wijaya & Suprasto, 2015; Raharjanti, 2019). In general, women in management can play important roles in making the right decisions because women tend to be cautious, conscientious and risk-averse (Ningrum, Suprapti, & Anwar, 2018). In addition, women are able to multitask several things simultaneously while maintaining a great level of concentration, while men tend to focus on handling and solving problems one by one (Fitriani, 2015). However, in decision-making, men tend to be more willing to take risks than women who tend to avoid taking risks (Winasis & Yuyetta, 2017).

In a company, the executive board decide the company's policies including its tax policies. To maximize profits, companies often carry out tax avoidance using legal methods as a part of their tax planning. Khaoula and Ali (2012) state that gender diversity in the executive board might influence the decisions made in tax avoidance practices that have an impact on firm value. This is confirmed by Winasis & Yuyetta (2017) concluding that gender diversity has a significant positive effect on tax avoidance. Nevertheless, this view is different from that of Francis, Hasan, Wu, & Yan (2014) stating that the presence of women in the executive board have an influence in increasing tax compliance. In this view, the role of women in the board is expected to be able to make the right decisions with low risks because women tend to possess certain traits that avoid taking risks such as cautious, conscientious, and risk-averse (Ningrum et al., 2018).

Women on the executives board of a company not only influence the management's decisions on their tax policies, but they also have the abilities to improve the company's financial performance. This is in line with the ideas that corporate governance has a significant effect on firm value, and a company is required to assign a minimum number of 30% of women on the board of directors (Chin, Ganesan, Pitchay, Haron, & Hendayani, 2019).

Moreover, some research concluded that economic value added (EVA) as the proxy for financial performance has an effect on firm value (Warizal, Nirwanti, & Setiawan, 2019; Karmawan & Badjra, 2019). The increased EVA value means that the company's performance is improving, and it affects the increase of firm value and the rate of return for investors. This can be a signal of the company's profitability that can attract investors. Nonetheless, different results are reported by Bailusy, Taslim, & Suyadi (2019) and Sari & Baskara, (2019). They conclude that financial performance with EVA has no effect on firm value because investors do not use EVA as the only consideration for investments. They think EVA increases the firm value, but it is not significant.

This study aims to reveal the role of women in strengthening the effect of tax avoidance and financial performance on firm value. The presence of women in the board structure is expected to strengthen the influence of financial performance on firm value and reduce the implementation of tax avoidance policies.

## 2. Literature Review

### Gender Diversity

Gender diversity can be defined as a situation where men and women have the same rights and obligations in top management positions (Raharjanti, 2019). Fitriani, (2015) lists some characteristics of women leaders. First, women leaders are generally more persuasive than men. When it is combined with their determination to persuade other people to agree with them, they somehow will succeed to impose their will on the others. They will feel satisfied when they succeed in doing it. However, although the women leaders tend to impose their will, this does not remove their social nature of empathy and femininity. Second, the women leaders can prove that criticisms towards them are incorrect. They can withstand the pain of rejection and criticisms because they have lower egos than men. Then with their courage, great sense of empathy, flexibility, and friendliness, women can quickly rise to their feet after failures and learn from their mistakes, and they move on with a positive attitude. Third, in teamwork, great women leaders tend to apply a comprehensive leadership style especially in solving problems and making decisions. They are more flexible, considerate, thorough, and they are also willing to help their staff. Fourth, great women leader generally has a great charisma like men. These ladies are persuasive, energetic, confident, and determined to complete their tasks. Finally, women leaders dare to take risks. They like to come out of their comfort zone and to take risks as brave as men, but they are also meticulous and full of consideration. This makes them able to avoid big risks.

In developing the hypotheses, three theories are used: the agency theory, the information asymmetry theory, and the signaling theory.

**Agency Theory**

Agency theory describes the relationship between the principals and the agents in a company where there is a separation of ownership. The theory developed by Jensen & Meckling (1976) suggests that the shareholders are the principals that own the company, while the company executives or the management are the agents who are entrusted the responsibility of managing the company by the principals. Accordingly, the management must prioritize the interests of shareholders. However, both management and shareholders are *homo economicus* who always act in their own interests. So it is possible that the agents act opportunistically and be egocentric in order to maximize its utility, for example by taking action that is detrimental to the company, for example by engineering the company's financial statements. This act is not only detrimental to the company, but it also deceives the shareholders because the information they presented is not transparent; thus, it may result in a decrease in the firm value.

**Information Asymmetry Theory**

In a company, the effect of asymmetric information occurs because the company executives or the management possess more information than other parties such as the owners or the shareholders. The conflict of interest in agency theory assumes that each individual acts to maximize their own interests; therefore, by having more information, the management can be encouraged to conceal some information from the owner or shareholders for the management's benefits. Moreover, this provides an opportunity for the managers to conduct earnings management in order to maximise their utility to the detriment of the shareholders. The flexibility of the management to do this can reduce the information quality for the outsiders. This may be viewed as detrimental by investors and will result in a decline in the firm value (Noviadewi & Mulyani, 2020).

**Signaling Theory**

This theory developed by Ross (1977) suggests that when the company management decide that certain information about the company should be conveyed to other parties outside the company, they will send certain signals. The other parties such as the prospective investors should interpret the signals by analyzing them. For example, a company can increase its firm value by publishing or sending certain signals in the form of the company's financial statements to the outsiders or investors (Laksono, 2014). Investors who receive the information should interpret the signals by analyzing the data (information) which are helpful in making good investment decisions. The more good news in the reporting, the better the company's performance prospects. Then it may attract investors to buy the company's shares. This is an example of a positive signal because the company gets a good assessment as a result of the increase in the demands and transactions of its shares. This increase is reflected in the increase of the company's share prices which eventually can increase the firm value.

**Tax Avoidance**

According to Pohan (2016), tax avoidance is the legal acts of reducing the amount of tax burden paid by a company which do not violate tax provisions because tax avoidance exploits the loopholes found in tax regulations. Furthermore, tax avoidance practices in a company have become one of the ways to reduce the amount of tax burden of the company so that its net profit is bigger (Tarida & Prasetyo, 2018).

One of the tax avoidance measurements which is often used in companies and which is also used in this study is the effective tax rate (ETR). This ETR ratio shows the effectiveness of a company's management and the company's tax performance (Wulandari & Septiari, 2015). When the value is below 25%, it may indicate greater tax avoidance practices conducted by the company. ETR may be the best measurement used for evaluating the actual tax burden (Wulandari & Septiari, 2015).

**Firm Value**

Firm value is investors' perception of a company's level of success which is reflected in the company's share prices (Ng & Phie, 2020). The share price is the market value or market price of the shares. The higher the share prices of a company, the higher the firm value of that company. This may also result in the increase of the market confidence in the company's performance and also in the company's future prospects (Fatimah, Mardani, & Wahono, 2017). In other words, the firm value is a condition achieved by a company as a form of public confidence in the company's operations that have been carried out by the company (Noerirawan & Muid, 2012).

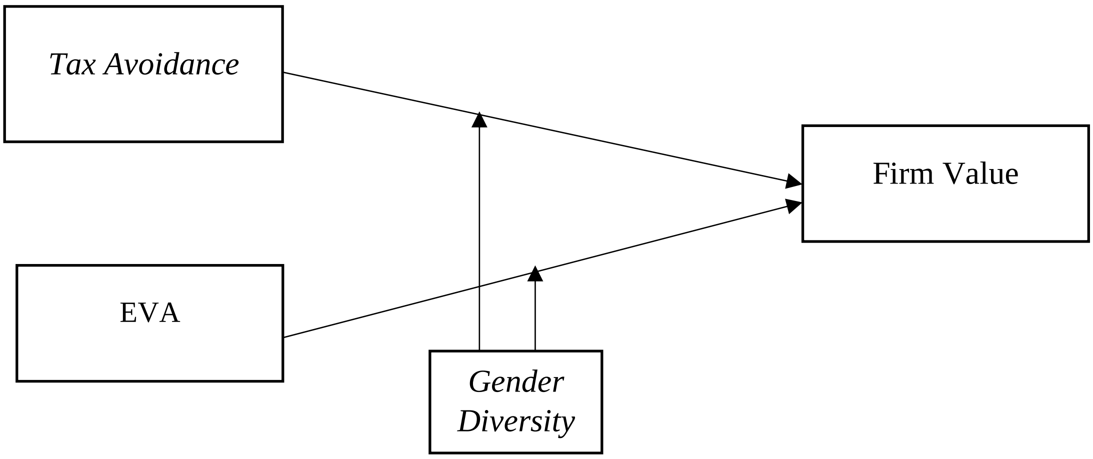


**Figure `. Conceptual Framework**

**Research Hypotheses**

A hypothesis is temporary arguments which are constructed as the answers to the research problems which are only based on relevant theories and have not been tested empirically by using the necessary data (Sugiyono, 2017). The following sections explains the four hypotheses in this study.

**The Effect of Tax Avoidance on Firm Value**

Companies that conduct tax avoidance practices want to maximize their profits by reducing their tax burden to increase the firm value. However, tax avoidance practices often create agency problems between the management and the shareholders because the management want to generate the maximum profits in order to increase the shareholders' welfare. On the other hand, the asymmetric information makes the shareholders concerned because the management know more about the condition of the company and the ensuing risks. This can lead to lack of transparency and concealment of the management's opportunistic acts of earnings management.

Some research on the influence of tax avoidance practices on firm value produce a mixture of positive and negative results. For example, Kurniawan & Syafruddin (2017) and Nugraha & Setiawan (2019) suggest that tax avoidance behavior in a company has a positive effect on its firm value because tax avoidance can improve its corporate governance indicated by the transfer of wealth to the shareholders. The firm value and the shareholders' loyalty to the company will increase due to the profits they received from the transfer of wealth. Conversely, Rajaguguk, Johanrindu, & Adi (2018) and Tarida & Prasetyo (2018) suggest that tax avoidance practices have a negative effect on firm value. The increase of tax avoidance activities in a company can decrease its firm value because the investors may think that the management are trying to cover up their opportunistic behaviors and use their authorities for their personal gains and run the risks of being discovered in the future.

H1: Tax avoidance has an effect on firm value.

**The Effect of EVA on Firm Value**

Potential investors consider the performance of a company as one of the determining factors to make investments because it can indicate the company's financial health (Marfuah & Nindya, 2017). In addition, the measurement of a company's financial ratios can describe changes in its financial conditions and the company's abilities in managing its wealth in order to increase its firm value (Tjandrakirana & Monika, 2014). Financial Performance can be measured by economic value added (EVA) that offers fairly objective parameters reflecting the level of company risk because EVA utilizes the cost of capital concept by subtracting the cost of capital from the profits. The cost of capital reflects the level of compensation or the expected returns gained by the investors from their invested investment (Mardiyanto, 2013). In the signaling theory, which is based on the asymmetric information between the management and the external stakeholders, a company needs to provide information by publishing its financial statements as the signals. When the signals are perceived as good by the investors, the signals will have a positive impact on increasing the company's share prices which subsequently increase the firm value. When the signals are not good, they will result in the decrease of its share prices which can reduce the firm value (Laksono, 2014). Warizal et al., (2019) and Karmawan & Badjra (2019) conclude that EVA affects the firm value. The increased value of EVA means that the company's performance is getting better, and it affects the increase of the firm value and the rate of return for the investors. This gives the signal of the company's profitability which can attract investors.

H2: EVA has an effect on firm value.

**The Effect of Gender Diversity on the Relationship between Tax Avoidance and Firm Value**

The presence of women on the board of directors of a company has received various acknowledgement for their roles, especially in the decision-making processes. Furthermore, women are considered to be able to minimize the potential of agency problems because they provide more diverse perspectives on paying more attention to the expectations of the stakeholders and can allocate company resources more effectively and efficiently (Handayani & Panjaitan, 2019). Women also play an important role in good corporate governance because they can give careful consideration to executive decisions and the ensuing effects of the decisions. This is because the inherently risk-averse character of women makes them be more careful in making decisions, including in the tax planning (Winasis & Yuyetta, 2017). According to Francis et al. (2014), the influence of women in the executives can increase the company's tax compliance. This is in line with Winasis & Yuyetta (2017) that conclude gender diversity has a significant positive effect on tax avoidance. Increasing the proportion of women in the executive can intensify the opportunities to commit tax avoidance.

H3: Gender diversity strengthens the effect of EVA on firm value.

**The Effect of *Gender Diversity* on the Relationship between EVA and Firm Value**

Hambrick (2007) states that the company's strategies are determined by the top executives, and these strategies can affect the company's performance (as cited in Handayani & Panjaitan, 2019). Companies with good performance can increase their firm value, which is one of their long-term goals. One way to achieve this goal is by implementing good corporate governance. In line with the signaling theory, the presence of women on the executive board of a company gives a signal that the company has implemented good corporate governance with regard to providing equal opportunities for men and women who have the necessary capabilities, knowledge, and skills to develop the company (Wijaya & Suprasto, 2015; Dewi & Dewi, 2016). Moreover, the presence of women on the board of a company brings unique contributions and perspectives resulting in various alternative strategies that can be taken by the company (Sawitri, Untoro, & Trinugroho, 2016). Women with their comprehensive leadership style of solving problems and making decisions are considered as flexible and considerate (Fitriani, 2015). According to Gordini & Rancati (2016) and Agyemang-Mintah & Schadewitz (2018), the presence of more than one women directors on the board has a positive and significant effect on both the company's financial performance and its firm value.

H4: Gender diversity strengthens the effect of EVA on firm value.

## 3. Research Method

This study uses the data from the financial statements of manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange in 2015-2019. Four variables in this study were measured using the following formulations.

Tax Avoidance
In this study, the effective tax rate (ETR) ratio is the proxy for tax avoidance which is similar to research conducted by Yee, Sapiei, & Abdullah (2018), Ningrum et al., (2018), and Panggabean, (2018). ETR is used to find out the amount of tax expense paid in the current year.

$$\textit{Effective Tax Rate}\ (\text{ETR}) = \frac{\text{Income Tax Expense}}{\text{Pretax Income}}$$

Economic Value Added (EVA)
In this study, EVA performance is used to measure the company's economic profit by using the cost of capital concept. The use of EVA here is similar to those of Sari & Baskara, (2019) and Karmawan & Badjra, (2019).

EVA = NOPAT – (WACC x Invested Capital)
NOPAT (Net Operating Profit After Tax) = EBIT x (1 – Tax)
WACC (Weighted Average Cost of Capital) = (D x Rd) (1 – Tax) + (E x Re)
D = Total liabilities / Total debts and equity x 100%
Rd = Total interest expense / long term debts x 100%
E = Total equity / Total debts and equity x 100%
Re = Net profit after tax / Total equity x 100%
Tax = Tax expense / Net profit before tax x 100%
Invested Capital = Total debts and equity – short-term debts

Firm Value
The proxy for firm value is calculated using Tobins Q which is similar to research conducted by Rajaguguk et al., (2018), Chin et al., (2019), and Padmayanti, Suryandari, & Munidewi (2019). Tobins Q is used to measure the performance of a company through the development of its share prices and the ability of its managers to manage the company's assets for investment growth.

$$\text{Tobins Q} = \frac{\textit{Total Market Value} + \textit{Total Book Value of Liabilities}}{\textit{Total Book Value of Asset}}$$

Total Market Value = closing share price x number of shares outstanding
Total Book Value of Liabilities = total debts
Total Book Value of Asset = total assets

Gender Diversity
Gender diversity is the proportion of women on the board of commissioners and directors compared to the total number of commissioners and directors (Raharjanti, 2019).

$$\textit{Gender Diversity} = \frac{\text{The number of women on board}}{\text{The number of board (of directors + commisioners)}}$$

This study uses a moderating regression analysis (MRA) model which is a special interaction test of multiple linear regression where the regression equation contains interactions.

NP = α +ß1TA+ß2EVA+ß3GD+ ß4TAitGDit+ ß5EVAitGDit+Ɛit

NP = Firm Value
α = Constant
TA = Tax Avoidance
EVA = Economic Value Added
GD = Gender Diversity
Ɛ = Error Term
i = entity i
t = period k-t

### Data Processing and Analysis

The data were analyzed by using the quantitative analysis with descriptive statistics approach. The method to analyze the data was the panel data regression method. The descriptive statistics tests were conducted by using Eviews program.

## 4. Results and Discussion

### Descriptive Analysis

The descriptive statistics analysis shows the data from the number of samples, minimum value, maximum value, mean, and median as seen in Table 1.

**Table 1**
**Descriptive Statistics**

| STATISTICS | NP | TA | EVA | GD | TA_GD | EVA_GD |
|---|---|---|---|---|---|---|
| Mean | 2.756227 | 0.284400 | 8431.096 | 0.206169 | 0.059809 | 23045.63 |
| Median | 1.711000 | 0.255000 | -6236.156 | 0.182000 | 0.042000 | 0.000000 |
| Maximum | 23.28600 | 0.946000 | 4455049. | 0.750000 | 0.315000 | 2183678. |
| Minimum | 0.139000 | 0.066000 | -9213416. | 0.000000 | 0.000000 | -2047426. |
| Std. Dev. | 3.356997 | 0.126988 | 1061547. | 0.199051 | 0.067335 | 324841.2 |
| Skewness | 3.339026 | 3.605370 | -2.247938 | 0.713222 | 1.566191 | 2.449711 |
| Kurtosis | 15.60467 | 18.01830 | 34.75971 | 2.655763 | 5.916869 | 30.58448 |
| | | | | | | |
| Jarque-Bera | 1907.569 | 2601.977 | 9645.861 | 20.18666 | 171.7495 | 7358.511 |
| Probability | 0.000000 | 0.000000 | 0.000000 | 0.000041 | 0.000000 | 0.000000 |
| | | | | | | |
| Sum | 620.1510 | 63.99000 | 1896997. | 46.38800 | 13.45700 | 5185266. |
| Sum Sq. Dev. | 2524.352 | 3.612186 | 2.52E+14 | 8.875144 | 1.015607 | 2.36E+13 |
| | | | | | | |
| Observations | 225 | 225 | 225 | 225 | 225 | 225 |

Source: Eviews Data Processing

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### The Regression Model

The Chow test and the Hausman test were carried out to determine the best model amongst the common effects model (CEM), the random effects model (REM), or the fixed effects model (FEM).

### Chow Test

The Chow test is used to determine the more appropriate model between the common effects model and the fixed effects model. The results displayed in Table 2 show that the chi-square probability value is 0.0000 which is less than 0.05; thus, it can be concluded that the more appropriate model is the fixed effects model.

**Table 2**
**Chow Test**

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

| Effects Test | Statistics | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 26.701594 | (44,175) | 0.0000 |
| Cross-section Chi-square | 459.669981 | 44 | 0.0000 |
| H0: CEM is appropriate | | | |
| H1: FEM is appropriate | | | |
| The results show that H0 is rejected; thus, FEM is more appropriate. | | | |

Source: Eviews Data Processing

### Hausman Test

The Hausman test is carried out to determine whether the fixed effects model is better than the random effects model in this research. Table 3 shows the results of the Hausman test. It shows that the random cross section probability is 0.0000 or less than 0.05; thus, it can be concluded that the more appropriate regression model is the fixed effects model.

**Table 3**
**Hausman Test**

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section fixed effects

| Test Summary | Chi-Sq. Statistics | Chi-Sq d.f | Prob. |
|---|---|---|---|
| Cross-section random | 77.119478 | 5 | 0.0000 |
| H0: REM is appropriate | | | |
| H1: FEM is appropriate | | | |
| The results show that H0 is rejected; thus, FEM is more appropriate. | | | |

Source: Eviews Data Processing

**Hypothesis Testing: The Fix Effects Model**

Dependent Variable: NP
Method: Panel Least Squares
Date: 02/28/21 Time: 18:57
Sample: 2015 2019
Periods included: 5
Cross-sections included: 45
Total panel (balanced) observations: 225

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 3.695876 | 0.804330 | 4.594978 | 0.0000 |
| TA | -1.259833 | 2.758859 | -0.456650 | 0.6485 |
| EVA | 1.29E-06 | 3.44E-07 | 3.763450 | 0.0002 |
| GD | 1.086494 | 3.378172 | 0.321622 | 0.7481 |
| TA_GD | -11.17255 | 11.76502 | -0.949642 | 0.3436 |
| EVA_GD | -6.42E-06 | 1.50E-06 | -4.280414 | 0.0000 |

Effects Specification

Cross-section fixed

| | | | |
|---|---|---|---|
| R-squared | 0.932676 | Mean dependent var | 2.756227 |
| Adjusted R-squared | 0.913825 | S.D. dependent var | 3.356997 |
| S.E. of regression | 0.985466 | Akaike info criterion | 3.001725 |
| Sum squared resid | 169.9500 | Schwarz criterion | 3.760859 |
| Log likelihood | -287.6941 | Hannan-Quinn criter. | 3.308115 |
| F-statistic | 49.47677 | Durbin-Watson stat | 1.705443 |

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Prob(F-statistic) 0.000000

FV= 3.695-1.259TA+1.29E-06EVA+1.0864GD -11.172TA*GD-6.42E-06EVA*GD+ e

The results show that the tax avoidance (TA) variable has a t-value of -0.45665 and a significance level of 0.6485, which means it is more than 0.05. Thus, it can be concluded that tax avoidance has no effect on firm value. The second variable, EVA, has a t-value of 3.763450 and a significance level of 0.0002, which is less than 0.05; therefore, EVA has an effect on firm value. The third variable, gender diversity, has a t-value of 0.321622 with a significance level of 0.7481, which is more than 0.05. Thus, it can be concluded that gender diversity has no effect on firm value. Moreover, gender diversity that interacts with EVA has a t-count of -4.2804 with a significance level of 0.0000, which is lower than 0.05. Therefore, it can be concluded that gender diversity weakens the effect of EVA on firm value. On the other hand, the interaction of tax avoidance with gender diversity has a significance level value of 0.3436 which is more than 0.005; thus, it can be concluded that gender diversity is not proven to moderate the effect of tax avoidance on firm value.

**Discussion**

Gender diversity as a factor that moderates the effect of tax avoidance on firm value

The results of the analyses show that gender diversity does not moderate the effect of tax avoidance on firm value. These results are not in line with those of Winasis & Yuyetta (2017) and Francis et al., (2014) which state that gender diversity and the role of women affect the relationship between tax compliance and increase the firm value. However, these results confirm the results of research by Limbago & Sulistian (2019) which state that gender diversity has no effect on the relationship between tax aggressiveness and firm value. Thus, H3 is rejected because it is unable to prove that gender diversity moderates the effect of tax avoidance on firm value.

Gender diversity as a moderating factor for EVA on firm value

The results also proved that gender diversity moderates the effect of EVA on firm value. However, its moderation weakens the effect of EVA on firm value. This is in line with Maghfiroh & Utomo (2019) concluding that the role of women does not have a positive effect on the company’s performance and firm value. Based on the general public view, men are considered as more capable of leading a company than women. In addition, most family-owned companies tend to appoint women to sit on the executives because of kinship relations. In this case, the contribution of women executives who gets their position because of kinship relations to the company’s performance and firm value has not been confirmed. It takes not only gender diversity but also experiences and competence in building effective board communication (Kiran, 2014).

However, the results of this study are different from those of Gordini & Rancati, (2016) and Agyemang-Mintah & Schadewitz (2018) suggesting that the role of women in a company has a positive effect on its financial performance which can increase its firm value.

## 5. Conclusion and Recommendation

### Conclusion

The results of the tests examining the effect of ETR ratio as the proxy for tax avoidance and EVA as the proxy for gender diversity which serves as the moderating effect to firm value lead to the following conclusions.

Financial performance measured by EVA has a positive effect on firm value. This shows that the greater the value of EVA, the greater the firm value. In addition, gender diversity significantly moderates the effect of EVA on firm value. In other words, gender diversity weakens the effect of EVA on firm value. Furthermore, tax avoidance is not proven to have an effect on firm value.

### Recommendation

Investors who are active in the stock market can use the information about a company's economic value added (EVA) to predict its firm value. For researchers, the presence of women on the board of executives that has not been proven to strengthen the effect of EVA on firm value provides opportunities for more research in the same area by increasing the number of data.

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