

Governance Structure, Tax Avoidance, and Firm Value

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ABSTRACT

This study aims to determine the effect of good corporate governance with board size indicators, board diversity, independent commissioners, and audit committee on the firm value. Tax avoidance was also tested as mediation in Good Corporate Governance and firm value relationship. We used 132 publicly listed Indonesian manufacturing firms that are listed in 2014-2018 as samples. This study used multiple regression analysis and path analysis by a Sobel test. The study results indicated that the size of independent commissioners played a significant role in supervising and providing consultation that had an impact on increasing firm value and tax avoidance. Meanwhile, other Good Corporate Governance elements, including board size, board diversity, and audit committee, did not affect the firm value. Similarly, the role of tax avoidance as mediation couldn't be proven in this study. This indicated that the regulators need to evaluate the mechanism to implement Good Corporate Governance in public firms and, if deemed necessary, provide additional Good Corporate Governance mechanism which principles can be applied entirely to prevent an agency conflict.

Keywords: *Agency theory, Audit committee, Corporate governance, Board diversity, Board size, Firm value, Independent board of commissioners, Signalling theory, Tax avoidance*

1. INTRODUCTION

In an agency theory concept, the management holds more and better information than shareholders. Based on this information, the management may act aggressively without involving the shareholders as the company's owners. Reference [1] stated that such information ownership raises the probability of conspiracy and takeover of top management's shareholders' wealth. For public firms, corporate governance reformation emphasizes the improvement of supervisory function by introducing independent directors and the audit committee as part of the firm's board structure [2].

The influence of Corporate Governance, which can be proxied by board size, board independence, frequency of board meeting, board diversity, or audit committee, is often associated with aggressive corporate behaviour in tax avoidance [3] and [4]. On the one hand, tax avoidance can increase firm value. On the other hand, tax avoidance increases agency costs and reduces the firm value because investors react negatively to their actions [5]. In an uncertain environment, tax avoidance

activities will be higher, reflected in a lower effective tax rate to maintain the firm value [6]. Therefore, involving independent directors and an audit committee for public firms is an effort to involve external parties to carry out supervisory activities on the firm's management by management [7]. Previous studies have emphasized the supervisory function and independent directors' importance through professional expertise [8] and [9]. This supervisory function indicates the tendency of opportunistic actions performed by the firm so that regulators need to anticipate activities that can harm minority shareholders or stakeholders in general by requiring the implementation of Good Corporate Governance elements.

Reference [4] states that emphasized on board size as a factor that can control the management's aggressive behaviour in tax avoidance. Large board size is considered to increase the distribution of the supervisory function of strategic decision making by executive management. Different results were found in the study of [10], who did not find the board size effect on tax avoidance. Reference [11] states that research even found that a smaller board size was more effective,

especially when a firm is in a crisis because a large board size will create difficulties in the coordination process.

From the perspective of corporate governance, the board diversity factor, namely the existence of both men and women in the organizational structure, is a benchmark that can strengthen the corporate governance structure. Reference [10] and [12] stated that female directors have succeeded in controlling the firm's aggressive decision and performing a significant supervisory function, creating a balance of the firm's responsible behaviour towards stakeholders. Another element of Good Corporate Governance that can affect firm value is the independence of the commissioners' board. Reference [13] explained that independent commissioners could increase firm value through neutral behaviour and professional expertise, which can also minimize agency conflict, limit transactions that only benefit certain parties, and provide resources for the firm and management. Reference [11] states that a large number of independent commissioners did not have a significant effect on the firm's financial performance based on their expertise. Another element that is also a part of corporate governance is the existence of an audit committee. Based on the Forum for Corporate Governance in Indonesia (FCGI), the audit committee is responsible for providing opinions on accounting issues, financial statements and explanations, internal control systems, and independent auditor. The more audit committees in the firm, the more effective it is to control and thus limit management to avoid aggressive taxes [3] and [4]. Implementing the elements of good governance within the firm can increase firm value. reference [2] states that good corporate governance provides benefits for shareholders, improves the board's quality and independence, and acts as a tool that helps shareholders monitor and controls the management's aggressive behaviour. Based on the description above, this study's additional value is to examine the effect of the elements of good corporate governance, both directly (influence on firm value) and indirectly (through tax avoidance as mediation).

2. LITERATURE REVIEW

2.1. Agency Theory and Signalling Theory

Agency theory investigates the significance of separation between owner and management in managing a firm. This theory finds that there is information asymmetry when the management prioritizes its interests by doing tax avoidance. That can be minimized by implementing the right corporate governance elements, such as transparent disclosure of information, to provide good value for the firm [14]. signalling theory explains how the firm reduces

information asymmetry by disclosing information in financial statements as a signal to outsiders or users of financial statements [15]. The signalling approach has four aspects: the signal provider, a sign, a signal receiver, and feedback from outsiders. As a signal provider that sends a signal to recipients, the firm will provide feedback through its perception [16]. The management can give positive signs to the market, one of which is tax avoidance, which is expected to increase the market share price and increase the firm value [17].

2.2. Good Corporate Governance

Good Corporate Governance (GCG) is a structure used by company participants (shareholders, commissioners, supervisors, directors) to improve the progress of the firm without leaving the interests of other stakeholders according to legislation and ethical values [18]. Corporate governance allows better supervision and control and thus minimizes opportunistic actions by managers that can reduce the firm value, which will increase the protection of shareholders [2]. In this study, the characteristics of corporate governance that we use are the board size, independent commissioners, board diversity, and audit committee.

2.3. Firm Value

Firm value is the outside party's perception of its success associated with the securities price [19]. The firm aims to increase firm value by increasing the welfare of owners or shareholders [20]. Optimizing firm value can be done through the financial management function, where the decisions taken can impact firm value [21].

2.4. Tax Avoidance

Tax avoidance is an effort to minimize the tax of a taxpayer legally. It is legal because it does not contradict the tax regulation, but it exploits tax laws and regulations. Tax avoidance indicates management's interest. It is done by reducing the firm's profit, which leads to the information from the financial statements not showing the real situation and creating the potential for information asymmetry between the firm and the investors [22].

2.5. Hypothesis Development

Tax avoidance is an effort to minimize the tax of a taxpayer legally. It is legal because it does not contradict the tax regulation, but it exploits tax laws and regulations [22]. Tax avoidance indicates management's interest. It is done by manipulating the firm's profits, which leads to the information from the financial statements not showing the real situation and creating

the potential for information asymmetry between the firm and the investors.

2.5.1. Effect of Governance Structure on Firm Value

The number of directors in a company is an essential factor that affects the firm's performance. When the number of directors exceeds the ideal number, there will be more problems than benefits, with multiple directors [23]. Board size that gets larger will cause agency problems and show that the board is just a formality [24]. The large board size makes it more challenging to take strategic and effective decisions to maximize the firm value [25]. Reference [25] stated that large board size has a negative impact on firm value.

An independent commissioner is recruited to supervise the management on behalf of shareholders. Reference [26] found that the firm with more independent commissioners has superior performance. Reference [27] found that the higher the representation of an outside director (independent commissioner), the higher the independence and the effectiveness of the board performance. Therefore, a higher representation of outside directors (independent commissioners) will increase firm value.

Reference [28] states that board diversity's view is considered to increase firm value because it brings unique and new skills, talents, and abilities. Board diversity is also considered to incorporate new perspectives into board structure, therefore increases the opportunities to solve complex problems [29].

The audit committee is responsible for supervising financial statements, external audit, and the firm's internal control system. A higher number of audit committees in the firm will affect the firm value increase because of auditors' supervision that involves the firm's profits. That was supported by [30], who found that the audit committee forced the owners and management to work together for shareholders and maximize stakeholders' wealth. The audit committee could contribute by providing precise and transparent company information to increase the firm value [31].

H1: Board size has a negative effect on firm value

H2: Independent board of commissioners has a positive effect on firm value

H3: Board diversity has a positive effect on firm value

H4: Audit committee has a positive effect on firm value

2.5.2. Effect of Governance Structure on Tax Avoidance

Reference [32] in a study found that large board size could reduce the effectiveness of manager performance.

From the risk perspective, [10] found that managers were more risk-averse to keep their interests, and they reflect this by engaging in aggressive tax avoidance that takes advantage of accounting treatments and procedures as well as legal inequity.

The independent commissioners could perform monitoring function in supporting management in managing the firm and preparing financial statements more objectively [24]. Reference [33] stated that members of the independent board of commissioners have no collusion with management and still maintain their independence to carry out shareholders' duties. Therefore, independent commissioners are expected to monitor management performance and decrease information asymmetry. Reference [34] in a study performed showed that the larger the number of independent commissioners in the firm is, the more effective it is to prevent tax avoidance.

Board diversity was defined as the number of female directors on the firm board. Reference [35] found that there was an influence of board diversity on tax avoidance because female directors are more avoidant of high risk, providing effective monitoring, and have high ethical and moral values. A larger proportion of the female director is a useful supervision tool and can control risks significantly to reduce tax avoidance actions [35].

The Capital Market Supervisory Agency regulated the audit committee elements as comprised of at least three people consisting of an independent commissioner and two other people from outside the firm [36]. Reference [3] found that the higher the number of audit committees in the firm in managing financial policy is, the lesser they can commit tax avoidance. In line with these findings, [37] found that the audit committee's high level of supervision on management will result in quality information and effective company performance.

H5: Board size has a negative effect on tax avoidance

H6: Independent board of commissioners has a negative effect on tax avoidance

H7: The number of female directors has a negative effect on tax avoidance

H8: Audit committee has a positive effect on tax avoidance

2.5.3. Effect of Tax Avoidance on Firm Value

In the agency theory, apart from considering the benefits of tax avoidance, it also finds non-financial costs that arose from tax avoidance activities, such as the possibility of restating financial statements and litigation risk by the tax authority [38]. Although tax avoidance could increase cash flow and net income, which will increase firm value, it could also reduce firm

value due to agency problems that will arise. Reference [39] found that there was a negative relationship between tax avoidance and firm value. Based on this description, the following hypothesis could be formulated.

H9: Tax avoidance has a negative effect on firm value

2.5.4. Effect of Governance Structure on Firm Value through Tax Avoidance

The high number of the directors in the firm will increase management performance supervision so that it becomes better and more controlled. If the management performance becomes more controlled, it will impact expanding the firm's profits, which will increase the share price and firm value [40]. Board of directors will determine the firm's policies and strategies, both short and long term so that many directors in the firm will help predict the possible design that must be performed to influence the firm value [41]. One management strategy is tax avoidance by reducing the firm's tax burden through accounting procedures and legal gaps for personal interest [10]. Reference [39] states that tax avoidance could increase cash flow and net income, which will increase the firm value, but it can also decrease firm value due to agency problems.

An independent board of commissioners in the firm will help investors control the firm so that the management will not take opportunistic actions that will harm investors. When investors feel that their rights are guaranteed, they will continue to invest their shares in the firm, which will increase the firm value [42].

Board diversity can provide different perspectives and transparency. Besides, because women tend to avoid risks, there will be less likelihood of tax avoidance actions. By reducing tax avoidance, the firm value can increase [42].

An audit committee in the firm will free the financial statements from the possibility of fraud committed by the management, such as tax avoidance. The audit committee can also help monitor what mechanisms can improve the quality of information and the firm's management, which will increase firm value. Based on these descriptions, the following hypotheses can be formulated [42].

H10: Tax avoidance mediates the relationship of board size to firm value

H11: Tax avoidance mediates the relationship of independent commissioners to firm value

H12: Tax avoidance mediates the relationship of the board of female directors to firm value

H13: Tax avoidance mediates the relationship of the audit committee to firm value

3. METHOD

3.1. Research Model

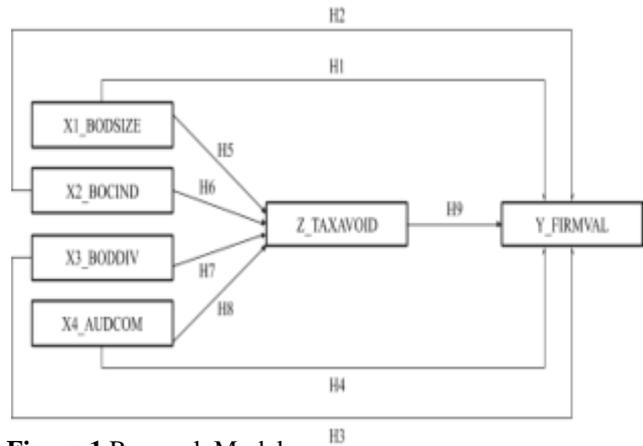


Figure 1 Research Model

Table 1. Results of sample selections

Criteria	Total
Manufacturing companies listed on Indonesian Stock Exchange for 2014-2018 periods	174
Sampling Criteria	
Delisted manufacturing companies for 2014-2018 periods	(9)
Manufacturing companies that inconsistently publish their annual report during 2014-2018 periods	(33)
Total Research Sample	132

Based on the explanation above, we mapped our research model as figure 1.

3.2. Sample Selection

Our study's objects are 174 firms in all manufacturing industries (Industrial & Chemical Sector, Miscellaneous Industry Sector, and Consumer Goods Industry Sector) that are listed on the Indonesia Stock Exchange (IDX) from 2014 through 2018. The selection of manufacturing firms as a sample was based on considering that manufacturing firms significantly contributed to state revenue, particularly in terms of taxes. This study uses a purposive sampling technique to filter selection from the total population. Table 1 provided the criteria used to filter the sample. The number of final samples used in the study was 132 firms with an observation period of 5 years with predetermined criteria. Thus, there were 660 observations used for empirical analysis.

Table 2. Descriptive statistics

Variables	N	Minimum	Maximum	Mean	St. Deviation
BODSIZE	245	2	13	5.16	2.265
BOCIND	245	1	4	1.63	0.818
BODDIV	245	0	4	0.61	0.864
AUDCOM	245	1	3	1.96	0.371
FIRMVAL	245	0.2112	1.6453	0.732	0.300
TAXAVOID	245	-0.0706	0.6068	0.243	0.109

$$t = \frac{a \times b}{\sqrt{b^2 S_a^2 + a^2 S_b^2 + S_a^2 S_b^2}}$$

Figure 2 t Count Formula

Description figure 2:

- a: regression coefficient of variable X on variable Z
- b: regression coefficient of variable Z on variable Y
- Sa: standard error of estimation of the effect of variable X on variable Z
- Sb: standard error of estimation of the effect of variable Z on variable Y

3.3. Variable Measurement

3.3.1. Dependent Variable

Firm value was measured by Tobin’s Q Ratio. The firm that has more than 1 Tobin’s Q indicated good investment opportunity in the firm.

$$Q = ((EMV + D))/((EBV + D)) \tag{1}$$

Where Q is firm value. EMV is equity market value, obtained from the multiplication of the year-end closing share price with the number of shares outstanding at the end of the year. EBV is equity book value, obtained from the difference between total assets and total liabilities of the firm. D is debt book value.

3.3.2. Independent Variable

The independent variable in the form of governance structure was measured using several indicators, namely board size (BODSIZE), the number of an independent board of commissioners (BOCIND), board diversity (BODDIV), and the size of the audit committee (AUDCOM). The board size was measured by the number of the board in the firm. The independent board of commissioners was measured by the number of independent commissioners in the firm. Board diversity was measured by the number of female directors on the board of the firm. The audit committee was measured by the number of audit committees in the firm.

3.3.3. Mediation Variable

This study uses tax avoidance as a mediation variable. Tax avoidance was measured by the Effective Tax Rate (ETR) to capture the less aggressive and more common forms of tax avoidance [43]. The lower the ETR value is, the more it indicates an increased possibility of tax avoidance.

$$ETR = (\text{total tax expense})/(\text{income before tax}) \tag{2}$$

3.3.4. Regression Model

The analytical method used in this study was multiple regression analysis to examine hypotheses one to nine. To examine hypotheses ten to thirteen, path analysis was used. The test was performed using the IBM SPSS Statistics 26 application. Model:

$$FIRMVAL = \alpha + \beta_1 BODSIZE + \beta_2 BOCIND + \beta_3 BODDIV + \beta_4 AUDCOM + \epsilon \tag{3}$$

$$TAXAVOID = \alpha + \beta_1 BODSIZE + \beta_2 BOCIND + \beta_3 BODDIV + \beta_4 AUDCOM + \epsilon \tag{4}$$

$$FIRMVAL = \alpha + \beta TAXAVOID + \epsilon \tag{5}$$

Where BODSIZE is board size, BOCIND is board independence, BODDIV is board diversity, AUDCOM is audit committee, FIRMVAL is firm value, TAXAVOID is tax avoidance, α is constant, and ϵ is residual error.

To determine whether or not the TAXAVOID variable was able to significantly mediate each independent variable (BODSIZE, BOCIND, BODDIV, and AUDCOM) to FIRMVAL, then the Sobel Test was performed in the path analysis. The Sobel test was performed by testing how strong the independent variable's indirect effect on the dependent variable through intervening/mediating variables. To determine the significance of the indirect impact, it can be calculated using the formula in figure 2.

The t count value obtained will be compared with the t table value. If t count \geq t table (1.96), there is a mediation effect.

4. RESEARCH RESULTS AND ANALYSIS

4.1. Descriptive Statistics

Descriptive statistics providing description of the variables in the study is shown in Table 2.

The final sample used in this study consisted of 49 firms with an observation period of 5 years, resulting in 245 observations. The outlier data caused a decrease in the number of observations from 660 observations to 245 observations.

Based on the results of Table 2, the corporate governance structure was calculated using the indicators of BODSIZE, BOCIND, BODDIV, and AUDCOM.

BODSIZE had the most massive average value, namely 5.16, which indicated the board of director's number in firms in the sample. BOCIND had an average of 1.63, which exceeded the requirement for the number of independent commissioners of 30%. BODDIV, with an average of 0.61, showed that the percentage of the number of female directors on the board was few in several firms. Meanwhile, the average AUDCOM in the corporate governance structure studied was 1.96. The FIRMVAL variable had a minimum and maximum value of 0.2112 and 1.6453, with a 0.732 average firm value checked. TAXAVOID, as a mediation variable with ETR proxy, showed the minimum and maximum values of -0.0706 and 0.6068, respectively. The average company taking tax avoidance action was 0.243.

4.2. Classic Assumption Test

The normality test could be seen through the normal P-P Plot graph which has a line to the top right approaching the normally distributed line in each relationship between variables. Thus, it could be said that the regression model residual was classified as normal when the points created were not scattered away from the straight line to the top right.

From Figure 3-5, the points on the normal P-P plot have approached a straight line, so it can be concluded that the regression model residual 1-3 had been normally distributed.

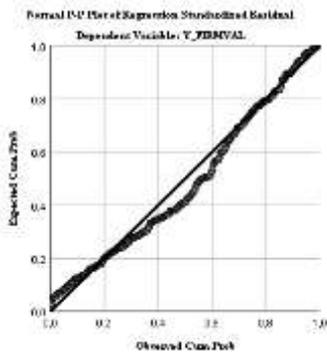


Figure 3 Normal Probability Plot Model 1

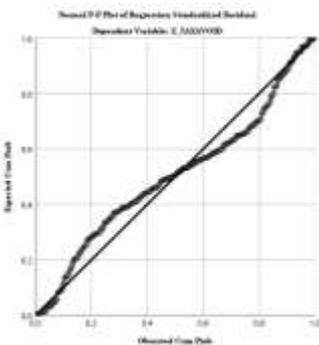


Figure 4 Normal Probability Plot Model 2

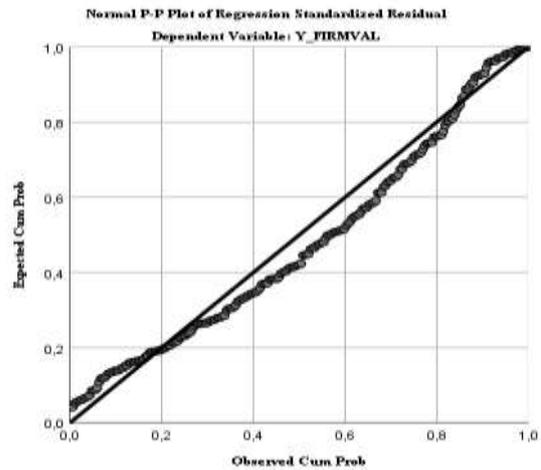


Figure 5 Normal Probability Plot Model 3

Table 3. Heteroskedasticity, multicollinearity, autocorrelation analysis results

Test	Model 1	Model 2	Model 3	Requirements
Heteroskedasticity (White Test)	CS _{test} = 22.785 CS _{table} = 23.684	CS _{test} = 18.865 CS _{table} = 23.684	CS _{test} = 3.43 CS _{table} = 5.991	Chi-Square test < Chi-Square table
Multicollinearity	Tol. > 0.1 & VIF < 10	Tol. > 0.1 & VIF < 10	-	Tol. > 0.1 & VIF < 10
Autocorrelation (DW Test)	0.86	1.393	0.787	-2 < DW < 2

Based on table 3, it could be seen that model 1, 2, and 3 have met multicollinearity, heteroscedasticity, and autocorrelation tests. Overall, it could be concluded that the three models did not have multicollinearity, heteroscedasticity, and autocorrelation problems. With the fulfilment of the four classical assumption tests, it could be said that these three models were suitable to be used in the study.

Table 4. Statistical results of Anova test

Model	Model 1		Model 2	
	F	Sig.	F	Sig.
Regression	12.844	0.000	4.835	0.001
Residual				
Total				

4.3. Model Feasibility Test (F Test)

The results of the F test for each regression model could be seen in table 4.

Based on table 4, model 1 showed a significance level of 0.000 which was smaller than 0.05, which means that board size, independent commissioners, board diversity, and audit committee jointly have a

significant effect on firm value. Model 2 shows a significance level of 0.001 which is smaller than 0.05, which means that the board size, independent commissioners, board diversity, and audit committee jointly have a significant effect on tax avoidance.

4.4. Determination Coefficient Test (R2)

The determination coefficient value ranged from 0 to 1. The results of the determination coefficient test for each regression model can be seen in table 5. The Adjusted R2 value in table 5 showed 0.163, which means that board size, independent commissioners, board diversity, and audit committee jointly were able to explain the variation in the firm value variable by 16.3%, and the remaining was 83.7% explained by other variables or factors not examined. Model 2 has an adjusted R2 value of 0.059, which demonstrates that board size, independent commissioners, board diversity, and audit committee jointly were able to explain the variation of tax avoidance by 5.9%, and the remaining is 94.1% explained by other variables not examined. Model 3 has an adjusted R square value of 0.015, which means that the tax avoidance variable can influence tax avoidance by 1.5%, and the remaining is 98.5% explained by other variables not examined.

4.5. Hypothesis Test

The results of the t test for each variable in each regression model were shown in table 6.

The test results in this study couldn't support the H1 hypothesis because it showed that board size has no effect on firm value with a significance level of 0.282 > 0.05. The board size did not affect the firm's performance.

Table 5. R square results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.42	0.176	0.163	0.2747
2	0.273	0.075	0.059	0.1058
3	0.139	0.019	0.015	0.298

Table 6. Statistical Results Of T-Test

Variable Relationships	B	Std. Error	t	Sig.
Model 1				
BODSIZE → FIRMVAL	0.010	0.010	1.077	0.282
BOCIND → FIRMVAL	0.134	0.026	5.094	0.000
BODDIV → FIRMVAL	-0.005	0.021	-0.233	0.816

AUDCOM → FIRMVAL	0.089	0.048	1.855	0.065
Model 2				
BODSIZE → TAXAVOID	0.011	0.004	2.901	0.004
BOCIND → TAXAVOID	-0.036	0.010	-3.549	0.000
BODDIV → TAXAVOID	0.018	0.008	2.202	0.029
AUDCOM → TAXAVOID	0.009	0.018	0.464	0.643
Model 3				
TAXAVOID → FIRMVAL	-0.381	0.175	-2.181	0.030

Reference [25] stated that the board's increasing size would create agency problems and indicate that the board was merely a formality. The H2 hypothesis in this study was acceptable because the significance value was 0.000 < 0.05. It means that a higher number of independent commissioners of the firm has a significant positive effect on firm value. These results supported the study of [13], who stated that independent commissioners could increase firm value through neutral behaviour and professional expertise. Board diversity has no effect on firm value with a significance value of 0.816 > 0.05, so the H3 hypothesis was rejected, as shown in table 4. These results supported the study of [44], who stated that only a few women were on board. That can be seen in descriptive statistics, where there are research sample firms that do not place women on board. The H4 hypothesis, which examined the audit committee's positive effect on firm value, is rejected with a significance value of 0.065 > 0.05. The size of the number of audit committees in the firm had no impact on firm value. This study results contradicted [30], who stated that the audit committee that carries out the supervisory function could reduce information asymmetry between owners and management to maximize stakeholders' wealth. Reference [45] states that there was a tendency for the audit committee not to guarantee that the firm's performance will be better. Hence, the market response considers that the audit committee's existence was not a factor that affects market value.

The results of testing the H5 hypothesis, namely that board size had a negative effect on tax avoidance, could be supported in this study. This study proved that board size has a positive impact on the ETR value with a coefficient value of 0.011 and significance level of 0.004 < 0.05 so that the larger the board size is, the higher the ETR value will be, which indicated that the level of corporate tax avoidance was getting smaller. These results contradicted [32], which stated that the larger the board size is, the less effective the manager's performance on the implemented programs and strategies. The results of testing the H6 hypothesis

showed that independent commissioners had a positive effect on tax avoidance with a coefficient value of -0.036 and a significance level of $0.000 < 0.05$. These results explained that the larger the independent commissioners' size, the lower the ETR value will be, which meant that the level of corporate tax avoidance was large. The hypothesis testing results in the study related to the board's diversity explained that board diversity had a negative effect on tax avoidance with a positive coefficient value of 0.018 and a significance value of $0.029 < 0.05$. The more diverse the gender composition on board is, the higher the ETR value will be, which means that tax avoidance was getting lower. These results supported the study of [10] and [12], who stated that the existence of female directors in the board was considered to control the firm's aggressive decision and carry out a significant supervisory function to balance the firm's responsible behaviour towards stakeholders. The study of [35] also stated that female directors were more risk-averse, more effective in exercising supervision and had good ethics and morals. The audit committee test in this study, which was tested through the H8 hypothesis, explained no influence between the audit committee and tax avoidance with a coefficient value of 0.009 and a significance level of $0.643 > 0.05$. These results differed from supporting the study of [3] and [4], who stated that a higher number of audit committees in the firm would result in more effective control that will limit management to engage in aggressive tax avoidance.

These study results were based on testing the H9 hypothesis, which states that tax avoidance had a negative effect on firm value. It meant that the higher the ETR firm value is, the smaller the firm value will be.

Table 7. Sobel (Aroian) Test Results

Independent Variables	a	b	S _a	S _b	t	p-value
BODSIZE	0.011	-0.316	0.004	0.167	-1.4932	0.135
BOCIND	-0.036	-0.316	0.010	0.167	1.6264	0.104
BODDIV	0.018	-0.316	0.008	0.167	-1.3710	0.107
AUDCOM	0.009	-0.316	0.018	0.167	-0.4304	0.667

The H9 hypothesis in this study was rejected because the coefficient value was -0.381, and the significance value was $0.030 < 0.05$. This study results contradicted [40] 's research, who found a negative relationship between tax avoidance and firm value. Although tax avoidance may increase cash flow and net income, which will increase firm value, it may also reduce firm value due to agency problems that will arise.

4.6. Mediation Test

The mediation test was performed through path analysis to examine the indirect effect of tax avoidance on firm value's governance structure indicator. The path analysis test was performed to determine whether or not the tax avoidance variable can mediate the relationship between the board size, board diversity, independent board of commissioners, and audit committee on firm value, as shown in table 7.

Table 7 informs that tax avoidance couldn't mediate the effect of board size, board diversity, independent commissioners, and audit committee on firm value. The p-value for all tested variables showed a value greater than 0.05 so that all mediation hypotheses are rejected. This study result indicates that only independent commissioners can influence firm value directly. Meanwhile, factors of the board size, board diversity, and audit committee couldn't affect firm value. This study adds the tax avoidance factor with the idea that through business strategies and anticipating the business environment's uncertainty, the firm can perform tax avoidance and thus increase the firm value, which was reflected in a lower effective tax rate [6]. However, the mediation test results using path analysis through the Sobel test couldn't prove that tax avoidance can be an intermediary to increase the firm value.

5. CONCLUSION

In the concept of agency theory, management had more control and better information than shareholders. Based on this information, management may act aggressively without involving shareholders as owners of the firm. The implementation of Good Corporate Governance in the firm is an effort to reduce agency conflict between management and stakeholders. In this study, the firm that implements Good Corporate Governance practice hopes to control opportunistic potentials in the form of tax avoidance performed by management to increase firm value. The findings generated in this study, which examine Good Corporate Governance elements, namely the board size, board of diversity, and audit committee, do not affect firm value, except for independent commissioners. The independent commissioner in this study was a very significant element in increasing firm value while preventing aggressive tax avoidance practices performed by the firm compared to board size, board diversity, and the audit committee's size.

The mediation test results using path analysis through the Sobel test did not prove that tax avoidance may become an intermediary that impacted firm value for firms that apply the principles of corporate governance. Public firms were cautious in anticipating the benefits of increasing cash through tax avoidance. Saving money might be beneficial in the short term, but

the firm was more likely to predict the long-term impact of tax avoidance measures that can damage the firm's image for stakeholders. Therefore, the firm chose not to take advantage of tax avoidance as an intermediary to increase firm value. This study results in the context of a policy that requests the regulators to evaluate the effectiveness of the implementation of good corporate governance so that each element involved in it can act according to the established procedures.

This study's limitation was that the indicator of the corporate governance structure was measured based on the number of members only. This study was expected to be an additional literature reference for future researchers, especially in seeing how corporate governance structure may affect firm value. However, the data and scope of this study were limited. Future research suggests using other proxies that are more representative in describing the corporate governance structure, such as using board proportion.

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