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The Effect of Tax Aggressiveness, Violation Regulation of FSA, and Foreign Ownership on CSR Disclosure

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***Abstract*—Legitimacy theory considers that the company can be maintaining its existence by gaining legitimacy from stakeholders to comply with regulations and norms in the area of operation. This research aims to analyze the effect of tax aggressiveness, violation regulation of Financial Services Authority (FSA), and foreign ownership on Corporate Social Responsibility (CSR) disclosure. The sample of research consists of 52 companies listed in Indonesia Stock Exchange (BEI). The research data use annual financial statement during the period 2011-2014 collected from Indonesia Capital Exchange (IDX). The analysis technique of data uses multiple linear regression. The empirical results find that tax aggressiveness and violation regulation of financial services authority are not the determinants of CSR disclosure, while foreign ownership has positive affect on Corporate Social Responsibility disclosure. Multinational companies will be more concerned with fulfilling the information needs of stakeholders to produce broader CSR disclosure. In addition, transfer of culture in the presence of foreign ownership can contribute to CSR disclosure. Although the phenomenon in this study was not able to corroborate the legitimacy theory in the context of CSR, it can be explained by using stakeholder theory**

Keywords— legitimacy theory, tax aggressiveness, foreign ownership, CSR

I. INTRODUCTION

CSR is a concept that demonstrates the company's commitment to contribute to various responsibilities for all stakeholders. Those stakeholders include shareholders, employees, suppliers, government, consumers, society and the environment. This responsibility is also considered to be related to sustainable development so that in its operations, the company will always run the business program while still paying attention to the values and interests in the society. This indicates that the company's legitimacy can affect the business sustainability. Therefore, the discussion of CSR theoretically can never be separated from the legitimacy theory.

The legitimacy theory is a point of view which considers that a company can only maintain its business by gaining public and government's legitimacy by applying the rules and norms in the operation area [1]. Business entities that violate the rules and values which is applied in their neighborhood tend to try to divert the society attention by using annual reports, especially related to CSR disclosures [2], [3]. The social responsibility report is one of the variables which are considered by the stakeholders in making economic decisions. In this case, the company can avoid the evaluation from the local community who consider that the company has violated rules or norms so that the company's image can be maintained [4].

Tax aggressiveness is also one of the tactics taken by management within the company as a reflection of the total non-compliance towards tax regulations. These managerial actions are designed to minimize corporate taxes through tax aggressiveness. This act is a common thing in the corporate circle around the world [5]. Other obligations that are often not followed by public companies are regulations related to their involvement in the capital market. Practically, companies listed on the Indonesia Stock Exchange (IDX) commit violations on financial reporting that are not in accordance with the regulations set by the Financial Services Authority (FSA). Moreover, such violations can lead to fraud actions which can be sanctioned [6].

Foreign ownership is a strategy that is also considered not populist like the two previous actions. Therefore, public companies that are owned by foreign parties will give different benefits to the society compared to state-owned or private-owned companies. Foreign-owned companies will bring their profit out of the company's operating area. Foreign ownership is also considered having a greater effect on the company's strategic policy decision. Foreign parties can utilize CSR to cover society's resistance, moreover, CSR is a trend adopted from Western-style management which is assumed having a higher level of involvement in corporate social-environmental actions.

Several studies have revealed that corporate policies that are not populist and do not have a direct impact on society's socio-environment will contribute to the legitimacy of the company which is getting reduced [7]. This phenomenon is interesting to study from the perspective of accounting with a legitimacy theory approach because the most ideal conditions are all rules and business ethics being obeyed by the company. This study aims to analyze the effect of tax aggressiveness, violation of FSA regulations, and foreign ownership of CSR disclosures.

II. METHOD

A. Design

The type of this research is hypothesis testing. The research hypothesis is developed through theory and empirical research in accordance with the research topic. Therefore, the effect pattern is arranged between the independent variables towards the dependent variable. This research applied causality principles by measuring the effect power between variables in Umar's research [8].

B. Population, Samples and Sampling Technique

Population in this research was companies listed on the Indonesia Stock Exchange. Therefore, the samples were companies that are a part of the population and have the characteristics set forth later. This research used the purposive sampling method. It is a method that its samples determination based on certain requirements [9]. The characteristics used in determining the sample were companies that were subjected to FSA fines during the research period.

C. Method of Data Collection

The method of data collection in this research was the documentation method. It is a method which is focused on the secondary data. In this case, it is by collecting the company's annual financial statements published by the IDX.

D. Variable Definition and Measurement

Tax aggressiveness is proxied by the Effective Tax Rates (ETR). The ETR represents the percentage of total income tax on income before tax. The ETR

The proxy for the violation regulation of FSA is the total annual sanction in IDR value determined by the FSA as used in Shahib and Irwandi's research [10].

Foreign ownership is the total shares owned by foreign parties, both individuals and institutions toward company shares in Indonesia [11].

The dependent variable in this study was CSR disclosure conducted by a company. The CSR disclosure in this study was measured based on social information categories according to GRI (Global Reporting Index) version 4.0 which consisted of environment, energy, labor's health and safety, products, community involvement, and public involvement. Therefore, the formula for measuring CSR disclosures is illustrated as follows:

$$n\,(CSRD) = \frac{Total\ of\ CSR\ disclosure}{Maximum\ score\ of\ CSR\ disclosure}$$

Control variables were used to control different factors. Therefore, they can provide an overview of the variance in the dependent variable. Company size, leverage level, and environmental impact were used as control variables in this study.

E. Technique of Data Analysis

The descriptive statistical analysis was used to find out the description of the data. It is conducted after the total sample is set. According to Ghozali [12], a multiple regression model used to test hypotheses must meet several classical assumptions. The classical assumption test and hypothesis testing were conducted in this study. In the multiple regression model, hypothesis testing is accepted at the tolerated significance value, namely 0.05 (α = 5%). The hypothesis testing used the goodness of fit test.

III. RESULTS AND DISCUSSION

A. Sample Characteristics

There were 436 companies listed on the IDX during the 2011-2014 period. The total sample after the elimination process was 52 companies. By conducting observations in four periods, the number of total samples was 208 samples. After conducting data transformation, because the initial normality test did not indicate that the data is distributed normally, then the number of samples for Ln Leverage variable is 161 and for Ln CSR Disclosure variable is 192. Therefore, the number of valid samples after summing all the variables is 146. The result of descriptive statistics was presented in table 1.

Table 1

Variables	N	Min	Max	Mean	St Dev
Tax Aggressiveness (AGR)	208	-0.85	44.84	0.50	3.11
Ln Violation of FSA Regulations (Ln_PPO)	208	0	13.12	3.81	4.77
Foreign Ownership (FOW)	208	0	99	42.90	30.57
Ln Company Size (Ln_SIZE)	208	11.43	20.57	15.44	1.99
Leverage (Ln_LEV)	161	-4.61	-0.34	-2.15	1.12
Ln Environmental Impact Level (Ln_DAM)	208	0	1.79	0.89	0.77
Ln CSR Disclosure (Ln_CSR)	192	-4.61	-0.19	-2.50	0.81

Source: Secondary Data

B. Description of Research Results

The results of the normality test after data transformation process finally produced a normal distribution pattern on the histogram chart that is not skewed to the right or to the left. Meanwhile, the plot graph indicated that the points spread around the diagonal line and follow the diagonal line direction.

In addition, the statistical normality test through the Kolmogorov-Smirnov test (one-sample K-S) was also conducted. It is to reassure that this research had fulfilled the normality assumption. The significance result of Asymp. Sig. (2-tailed) was 0.161 in which it was greater than α = 0.05. Therefore, this research model has fully fulfilled the normality assumption.

The White test was used to detect heteroscedasticity problem. The distribution value of calculated chi-square was n x R2 = 146 x 0.1652 = 3.97. Meanwhile, the distribution value of table chi-square was 19.67 with the significance level of

0.05. The distribution value of calculated chi-square was smaller than the distribution value of table chi-square (3.97 <19.67).

Therefore, this research model was free from heteroscedasticity. Each independent variable shown by the Pearson correlation on the correlation value produced a value below 0.90. This value can be concluded that there was no high correlation between independent variables so that this research model was claimed free from multicollinearity problem.

C. Hypothesis Test

The hypothesis test in this study used multiple regression analysis. The summary of the result was presented in table 2. This research studied the effect of tax aggressiveness, violations of FSA regulations, and foreign ownership of CSR disclosures. In table 2, the determinant coefficient shown by Adj. R2 from the regression equation was 0.321. This value indicated that 32.1% of independent variables and control variables were able to define the CSR disclosure.

Moreover, the remaining 67.9% was defined by other variables outside the model. This meant that there were other factors that influenced the CSR disclosure. In the simultaneous significance test indicated by F-statistic, the value of the regression equation was 12.415 and its significance level was 0.000 (below $\alpha = 0.05$). It showed that the independent variables and control variables simultaneously had a positive and significant effect on CSR disclosure

Table 2

$CSRit = \beta0 + \beta1\ AGR\ it + \beta2\ PPO\ it + \beta3\ FOW\ it + \beta4\ SIZEit + \beta5\ LEVit + \beta6\ DAMit + e$

	Coefficient	t-statistic	Sig.
Constants	-5.771	-9.532	0.000
AGR	0.013	0.793	0.429
Ln_PPO	0.002	0.153	0.879
FOW	0.005	2.117	0.036
Ln_SIZE	0.207	5.603	0.000
Ln_LEV	0.117	2.085	0.039
Ln_DAM	0.131	1.371	0.173

N = 146 $R^2 = 0.349$

Adj $R^2 = 0.321$

F-Statistic = 12.415 sig. 0.000

The dependent variable is CSR; independent variables are AGR, LnPPO, FOW; and the control variables are Ln_SIZE, Ln_LEV, and Ln_DAM.

Source: Secondary Data

Based on the research conducted by Lanis and Richardson [13], they revealed that there was a positive and significant relationship between tax aggressiveness and CSR disclosure. However, that result was not in line with the result of this research as revealed in the first hypothesis testing (H1).

The research conducted by Brown and Deegan [14] and Deegan et al. [15] also revealed that a company would seek the public legitimacy if they had the public interest in form of legal violations to maintain the sustainability of their operations. The result of this research is in line with Fardilah's research [16]. Fardillah also found out that tax aggressiveness did not affect CSR disclosure. In this study, 25% of samples were mining companies.

Therefore, CSR disclosure was influenced by regulatory aspects which kept them as a company which managed natural resources. Meanwhile, the mean score of tax aggressiveness was 0.5 which meant that the amount of tax burden was 50% of accounting profit. That score was greater than the income tax obligation in which on the article 29 it should be 25% from profit before tax. Therefore, it can be assumed that sample companies sufficiently showed tax compliance. This may reduce the effect of tax aggressiveness on CSR disclosures.

The results of the second hypothesis testing (H2) indicated that the violation of FSA regulations had no effect on CSR disclosure. This result was not in line with the hypothesis built in this study. According to previous research by Brown and Deegan [17], Deegan, et al. [18], and Lanis and Richardson [19], they revealed that a company will tend to try to get society legitimacy for the sustainability of their business when they become the public concern in form of law violations.

Limited information access can be a reason why stakeholders do not yet have the awareness that a business entity is in the public spotlight because they neglect to obey FSA regulation as a means of communication between companies, FSA, and stakeholders. Therefore, the companies' party will feel that violating FSA regulations is not something that must be feared bringing adverse effects on the company's image.

In addition, the same indication was also found from the number of companies and the number of given sanctions in which it was regarded relatively small. This can be found from several indicators. First, the number of companies subjected to FSA sanctions was relatively small. From 208 samples in this research, there were only 84 that had records in violating FSA regulations. Second, the sanctions subjected to the company were still relatively small. This can be noted from the comparison between the amount of fines and assets that was sufficiently wide. It indicated that companies that have committed violations were not enough to encourage management to make strategic corporate decisions to cover the hole of the violation.

The result of the third hypothesis testing (H3) showed that foreign ownership had a positive impact on CSR disclosure. Foreign ownership had a role in determining the extent of CSR disclosures. This was in line with the research conducted by Oh, et al. [20], Djuitaningsih and Ristiawati [21], and Rustiarini [22]. However, this result was not supported the result of Karima's research [23]. This result confirmed that companies which had a large percentage of foreign ownership will pay more attention to the broader stakeholder information needs.

Consequently, it can provide better responsibility disclosure in order the disclosure can provide good news for stakeholders. The good news signal will provide positive information for stakeholders so that they are distracted from the amount of foreign ownership as a non-populist policy for the local society and environment. This was in line with Deegan et al.'s statement [24] in which a policy that was not populist and did not stand on the socio-environmental interests will contribute to the legitimacy of the company which is getting reduced.

IV. Conclusion

Foreign ownership has a positive effect on CSR disclosure. CSR disclosure is carried out more in the context of stakeholder encouragement in the foreign ownership. Therefore, the legitimacy context still needs a strong basis in this study. Multinational companies will pay more attention to

the information needs of the stakeholder so that it will provide broader CSR disclosure as a good news signal for stakeholders.

Meanwhile, the tax aggressiveness and violation of FSA regulations do not affect CSR disclosure. For further studies, it is suggested to add other proxies for the tax aggressiveness variable based on the operating cash flow approach or the comparison between the difference of commercial profit and fiscal with the net assets. Moreover, other independent variables such as Good Corporate Governance (GCG) and financial performance may be added as mediation variables.

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