

## **ANALYSIS OF THE EFFECT OF BUSINESS STRATEGY, DEBT POLICY, AND THE AGE OF THE COMPANY ON TAX AVOIDANCE**

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### **Abstrak**

*Penelitian ini bertujuan untuk mengetahui apakah strategi bisnis, kebijakan hutang, dan umur perusahaan berpengaruh terhadap penghindaran pajak. Sampel penelitian ini adalah perusahaan sektor makanan dan minuman yang terdaftar di Bursa Efek Indonesia periode 2018-2021. Teknik pengambilan sampel menggunakan metode purposive sampling dengan jumlah sampel sebanyak 81 perusahaan. Teknik analisis data menggunakan analisis regresi linier berganda. Hasil penelitian ini menunjukkan bahwa variabel strategi bisnis dan umur perusahaan tidak berpengaruh terhadap penghindaran pajak, sedangkan variabel kebijakan hutang berpengaruh signifikan terhadap penghindaran pajak. Implikasi penelitian ini memberikan bukti empiris mengenai pengaruh strategi bisnis, kebijakan hutang, dan umur perusahaan terhadap penghindaran pajak. Keterbatasan penelitian ini adalah sampel yang digunakan dibatasi hanya pada perusahaan sektor makanan dan minuman yang terdaftar di BEI periode 2018-2021. Oleh karena itu, penelitian selanjutnya dapat menambah jumlah sampel dan tahun penelitian.*

**Kata kunci:** penghindaran pajak, strategi bisnis, kebijakan hutang, umur perusahaan

### **Abstract**

This research aims to investigate whether business strategy, debt policy, and the age of the company influence tax avoidance. The sample of this research is a food and beverage sector company listed on the Indonesia Stock Exchange for the 2018-2021 period. The sampling technique uses the purposive sampling method with a total sample of 81 companies. The data analysis technique uses multiple linear regression analysis. The results of this research show that the business strategy and the age of the company variable do not affect tax avoidance, while the debt policy variable has a significant effect on tax avoidance. The implications of this research provide empirical evidence regarding the influence of business strategy, debt policy, and the age of the company on tax avoidance. The limitation of this research is that the sample used is limited to only food and beverage sector companies listed on the IDX in the 2018-2021 period. Therefore, future research can increase the number of samples and years of research.

**Keywords:** tax avoidance, business strategy, debt policy, the age of the company

### **Introduction**

The phenomenon of tax avoidance occurs in PT. Indofood Sukses Makmur Tbk. The act of tax avoidance practices harms the state worth RP. 1.3 Billion. This case originated from PT. Indofood Sukses Makmur Tbk (INDF) conducted business expansion by establishing a new company and transferring the assets, liability, and operations of the Noodle Division (Instant Noodle and Seasoning Factory) to PT. Indofood Sukses Makmur Tbk (Instant Noodle and Seasoning Factory). Indofood CBP Sukses Makmur Tbk (ICBP). Company PT. Indofood

Sukses Makmur Tbk conducted business expansion to avoid taxes, but with the expansion of the business, the decision of the Directorate General of Taxes still stated that PT. Indofood must continue to perform its obligations to pay taxes owed worth 1.3 billion. ([www.gresnews.com](http://www.gresnews.com)).

Tax avoidance practices are influenced by several factors, including business strategy and debt policy. (Harianto, 2020; Wardani & Khoiriyah, 2018) stated that the company's business strategy affects all company activities because all business process activities,

operational policies, and transactions carried out as well as all business decisions made by managers must be in line with business strategy. This study uses two strategies proposed by Miles and Snow, namely defenders and prospectors because these strategies are two strategies that are at two extreme points and very opposite characters and strategies (Wardani & Khoiriyah, 2018).

The company's debt policy is also a factor that can encourage companies to carry out tax avoidance. Debt policy is a policy that measures the extent to which a company's activities are financed with debt. Debt policy is a policy regarding decisions taken by companies to carry out their operational activities with debt funds (Brigham & Houston, 2017). It can be concluded that debt policy is how far a company is in using debt funds for the company's operational activities. The higher the amount of debt used by the company as funding for operational activities, the higher the amount of interest expense imposed on the debt.

The age of the company is a factor that can affect the existence of tax avoidance. The age of the company is how long the company has been established and can survive on the Indonesia Stock Exchange. The age of the company shows how long the company will continue to exist and be able to compete in the business world (Dewinta & Setiawan, 2019). Research conducted (by Moradi & Sedaghat, 2017) shows that the age of the company has a significant effect on tax avoidance. Satyadini (2018) also found that the age of the company affects tax avoidance in the company.

Some of the previous studies that have been carried out still obtain mixed results such as the research conducted by (Harianto, 2020; Wardani & Khoiriyah, 2018) stated that business strategy does affect tax avoidance. Meanwhile, (Claudia & Mulyani, 2020) state that business strategies affect tax avoidance. In research (Dewinta & Setiawan, 2019; Moeljono, 2020) debt policy variables have the result that debt policy does not affect tax avoidance. Meanwhile, the study (Wahyuni et al., 2019) stated that debt policy affects tax avoidance. Company age variables in research (Indriani & Juniarti, 2020; Wardani et al., 2020) obtained the result that the age of the

company does not affect tax avoidance, while the research conducted by (Dewinta & Setiawan, 2019) states that the age of the company affects tax avoidance.

This research is important to do because tax avoidance actions carried out by companies if not detected will have an impact on reducing the achievement of state tax revenues, as well as tax avoidance practices, which can have a bad impact on the company. Tax avoidance practices carried out by companies can pose risks in the form of fines and loss of company reputation which will have a bad impact on the sustainability of the company (Yulyanah & Kusumastuti, 2019). In addition, research on tax avoidance conducted by previous researchers also obtained mixed results.

### **Literature Review**

According to (Jensen & Meckling, 1978) agency theory explains the relationship between management and owners who have different interests. Agency Theory is a perspective that clearly describes the problems that arise with the separation between ownership and control of the company, namely there is a conflict of interest in the company. Management (agent) in carrying out company operations must prioritize the interests of the owner by increasing the prosperity of shareholders (principal). However, management often has interests that differ from those of shareholders, causing differences in interests between management and shareholders.

In addition, the agency theory is also related to two parties bee company as a party (agent) and the government as a party (principal). The government wants the state's recipients of large or maximum-value taxes regularly and expects companies to pay taxes by applicable tax regulations. Meanwhile, the company wants to make savings in paying taxes so that conflicts of interest arise. The conflict is commonly known as the agency problem. The relationship between agency theory and tax avoidance is that if the management of the company is not good, it will cause conflicts or agency problems that will harm various parties (Wardani & Khoiriyah, 2018). Agency theory will spur management to

manipulate company profits because when the profit is generated by a large company, the amount of the company's tax burden will also be large so this can allow a company to carry out tax avoidance.

Business strategy is one of the factors that can influence management in making a decision. The implementation of a good strategy plays an important role in the sustainability of a business. There are various kinds of business strategies, two of which are defender strategies and prospector strategies. The defender strategy is a type of strategy that has the characteristics of finding a stable market and only producing limited products to serve a narrow market segment. Companies that fall into the Defender strategy type consider the costs of tax avoidance more than the tax avoidance benefits in the form of tax savings (Higgins et al., 2011:9). The cost of tax avoidance will make the cost of defenders higher, and this can interfere with the competitive advantage of defenders (Ariefiara et al., 2018). Business strategy is one of the factors that can influence management in making a decision. The implementation of a good strategy plays an important role in the sustainability of a business. There are various kinds of business strategies, two of which are defender strategies and prospector strategies. The defender strategy is a type of strategy that has the characteristics of finding a stable market and only producing limited products to serve a narrow market segment. Companies that fall into the Defender strategy type consider the costs of tax avoidance more than the tax avoidance benefits in the form of tax savings (Higgins et al., 2011:9). The cost of tax avoidance will make the cost of defenders higher, and this can interfere with the competitive advantage of defenders (Ariefiara et al., 2018).

Prospector strategies focus more on a form of continuous innovation by discovering and exploiting new products and market opportunities. Research conducted by Muhammad (2012: 27) states that companies that belong to the prospector type have higher flexibility in production and distribution technology which affects the level of tax paid. That is, a company that has high flexibility will encourage the company's strategy to carry out

tax avoidance practices. It can be concluded that companies that implement business strategies have the opportunity to carry out tax avoidance practices. This is because the widespread market share can increase the company's revenue generation which increases the company's tax burden so tax avoidance practices are carried out as an effort to reduce the tax burden. Research conducted by (Claudia & Mulyani, 2020) found that business strategies affect tax avoidance. This is because, with the implementation of business strategies by management, decisions regarding tax avoidance will be made to take advantage of various costs.

### **H1: Business Strategy affects tax avoidance**

Debt policy is a company policy in terms of funding carried out by the company's management to obtain funding sources to finance the company's operational needs (Pratiwi & MeMartha2017). It can be concluded that debt policy is how far a company is in using debt funds for the company's operational activities. (Hartadinata & Tjaraka, n.d.). Companies that have a large tax burden can save their tax costs by increasing the company's debt. Because by increasing the amount of company debt, it will cause interest expenses that can be used as a deduction from profit before tax, to reduce the amount of tax burden that must be paid. Research conducted by (Putri & Putra, 2017) found that debt policy (leverage) affects tax avoidance. This is because the greater the amount of debt, the greater the company's interest expense, and the amount of tax paid will decrease.

### **H2: Debt policy affects tax avoidance**

The age of the company is how long the company has been established and can survive on the Indonesia Stock Exchange (Dewinta & Setiawan, 2019). The age of the company indicates how much a company can optimize the company's operations and can survive in the competition of the business market (Permata et al. 2018). Research conducted (by Moradi & Sedaghat, 2017) shows that the age of the company has a significant effect on tax avoidance. Satyadini (2018) also found that the

age of the company affects tax avoidance in the company.

**H3: The age of the company affects tax avoidance**

**Research Methods**

The sample in this research is a food and beverage sector company listed on the Indonesia Stock Exchange for the 2018-2021 period. The sampling technique used is purposive sampling with criteria (1) The company is included in the category of food and beverage sector companies listed on the Indonesia Stock Exchange from 2018-2021; and (2) The Company publishes audited financial statements on the Indonesia Stock Exchange in 2018-2021. The total sample of companies used in this study was 81 companies.

Tax avoidance is an effort made by companies to reduce the legal tax burden. The calculation of tax avoidance variables in this study uses the CETR ratio. According to Purwanto (2016: 585), the measurement of the CETR ratio is carried out with the following calculations:

$$CETR = \frac{\text{Tax Payment}}{\text{Earnings before Tax}}$$

A business strategy is a set of decisions that assist an entrepreneur in achieving certain goals and is a method by which an enterprise secures its competitive position. In this study, several measurements were used by Higgins, et al (2011: 10) to obtain the value of the strategy, as follows:

1. The ability to efficiently produce and distribute goods and services. One of the important parts of a company's business strategy is the company's ability to efficiently produce and distribute goods and services. The company's ability here uses the following measures:

$$\frac{EMP}{SALES} = \frac{\text{Number of Employees}}{\text{Sales}}$$

2. Company Growth Rate

The growth rate of the company here uses the following measurements:

$$MtoB = \frac{\text{Stock Market Price}}{\text{Amount of Capital}}$$

3. Market

Marketing here uses the following measurements:

$$\text{Market} = \frac{\text{Advertising expense}}{\text{Total Sales}}$$

4. Intensity of Fixed Assets

The intensity of fixed assets here uses the following measurements:

$$PPEINT = \frac{\text{Fix Asset}}{\text{Total Asset}}$$

The strategy in this study used a measurement of four proxies, which were then sorted by quintile. For the first three proxies (EMP/SALES, MtoB, and Market), the sample of companies with the top quintile order obtained a score of 5, the sample that was below it scored 4, and so on. As for the PPEINT score, it is the opposite of the first three proxies, the sample of companies with the top quintile order obtained a score of 1, the sample that was in the bottom order got a score of 2, and so on. Then each company's score on all proxies is summed up. So the maximum score value is obtained, which is 20 (prospector type) and the minimum score value is 4 (defender type).

Furthermore, the measurement of the strategy uses dummy variables. Measurement is carried out by matching the items on the checklist with the items disclosed in the company's annual financial statements. If the number of items *i* is above the average number of revealing items of all samples it will be given a value of 1, if the number of items *i* is below the average number of revealing items of all samples it will be given a value of 0.

**Table 1. Strategy Determination**

Strategy	Code	Strategies used
Score 4 - 12	0	<i>defender</i>
Score 13 - 20	1	<i>prospector</i>

Debt policy is a policy regarding how far a company can use debt funds for the

company's operational activities. Debt policy measurement in this study uses Debt to Asset Ratio (DAR) with the following calculations:

$$\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

The age of the company in this study used the age from the date the company was listed on the Indonesia Stock Exchange. This is because when a company has gone public and

**Research Results**

**Table 2. Result of Multiple Linear Regression**

Independent Variables	Dependent variable – Tax Avoidance	
	t value	Sig.
Business Strategy	-.946	.343
Debt Policy	2.682	.008
Age of the company	-.893	.360

Note: \*p<0,1

As shown in Table 2, business strategy was not affected by tax avoidance, inconsistent with *H1*. Consistent with *H2*, the result of the study shows that Debt policy positively affected tax avoidance. According to the *H3*, the Age of the Company should affect tax avoidance. Inconsistent with this argument, the result in Table 2 reveals that the Age of the company was not influenced by tax avoidance.

**Discussion**

Based on the results of business strategy testing on tax avoidance in table 2, it shows that the significance value of the business strategy is 0.343 which means it is greater than the alpha value of 0.10 and the t value is -.946 which means it is smaller than 1.65. The results of the test showed that there was no significant influence on business strategy on tax avoidance. This is because most average companies are still unable to establish a consistent type of business strategy pattern from year to year so that whatever business strategy is used by the company cannot affect the company's tax avoidance. The results of this test are in line with research conducted by Harianto, 2020 and Wardani & Khoiriyah, 2018 which shows that business strategy does not affect tax avoidance.

The test results on the debt policy variables on tax avoidance in table 2 show that the value of debt policy significance is 0.008 which means less than 0.10, while the t value is 2.682 which means greater than 1.65 so the

is listed on the Indonesia Stock Exchange, the company must publish its financial report. Measurement of the age of the company in this study using calculations.

$$\text{Age} = \text{Years of Study} - \text{Year of Establishment}$$

This study uses multiple linear regression analysis to analyze the influence of independent variables on dependent variables.

test results show that there is a significant influence debt policy on tax avoidance. This is because the level of debt owned by a company will affect the interest rate charged. The higher the amount of funding from debt used by a company, the higher the interest expense that arises from the debt. The interest expense will be used by the company in reducing the company's tax burden. The results of this test are in line with research conducted by Wahyuni et al., 2019 and Putri &Putra, 2017 which shows that debt policy affects tax avoidance.

Based on Table 2, the results of testing the company's age variables on tax avoidance show that the significant value of the age of the company is 0.360 which means it is greater than 0.10 and the t value is -0.893 which means it is smaller than 1.65. However, testing results on the company's age variable showed no significant effect of the company's age on tax avoidance. This is because most companies in Indonesia have relatively long life but have not been listed on the Indonesia Stock Exchange for a long time. Therefore, the life of a company or the length of time a company is established cannot affect a company to carry out tax avoidance. The age of the company that has been listed on the Indonesia Stock Exchange is more revealing of its corporate social responsibility to increase investor confidence to keep investing so that the company will not take advantage of loopholes to carry out avoidance practices. The results of this test are in line with research conducted by

Wardani et al., 2020 and Indriani & Juniarti, 2020 which showed that the life of the codes does not affect tax avoidance.

## Conclusion

This study is subject to several limitations; consequently, the results should be interpreted with caution. As the study was restricted to food and beverage sector companies listed on the IDX in the 2018-2021 period, further research is required to assess other sector companies listed on the IDX. Second, this study only uses data for 2018-2021, therefore subsequent studies can increase the number of years of observation to improve the generalization of research results. One possible avenue for future research could also expand on the model used in the current paper to simultaneously examine the variables that have been found to influence tax avoidance.

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