Do Business Strategy Affects To Tax Avoidance While Pandemic Covid-19?

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Abstract. In 2020-2022, The world infected with COVID-19. Economic activity was slowdown because employee/labor were unable to work and the industries almost stopped doing production / operational activities. During the pandemic, the Government issued several fiscal policies such as reducing the Corporate Income Tax rate, and others. On the other hand, company management must also think about the business strategy which will make them survives until the pandemic is over. The main problem will be interested to research is whether the company will continue to strive to carry out business strategies that have an impact on increasing tax avoidance activities during the COVID-19 Pandemic. This research objects are manufacturing companies listed on the IDX in 2020-2022. Refer to our empirical research, we found that Defender performs higher tax avoidance activities than Prospector and Analyzer while COVID-19 Pandemic.

Keywords: Business Strategy, Prospector, Defender, Tax Avoidance, COVID-19

1 Introduction

In 2020, the Government has declared a COVID-19 public health emergency status in Indonesia [1], and also declared the COVID-19 Pandemic as a national disaster [2]. Then, this status was revoked on June 21, 2023 [3]. In 2020-2022, World's economic activity were slowdown, especially in 2020. Refer to IMF data, global economic growth in 2020 was contracted to -3.0 yoy [4]. The same thing is also felt in Indonesia where economic growth was contracted to -2.1 yoy in 2020 [4]. This is reflection of decreasing business activity in almost all industrial sectors except for agriculture, ICT, and real estate [4]. As a result, fiscal revenues was also decreased by 16.7% in 2020.

This decreasing was also caused by Government unfriendly policies but it should be done, such as the *Work From Home* (WFH) policy, limiting the quota of employees that allowed to work in office, and so on. As a result, companies cannot produce normally, and because of this, the company's profits decrease or suffer losses, and many companies even have to be liquidated. Shen, et al [5] stated that the COVID-19 pandemic had a negative and significant effect on the declining firm performance in China, especially investment scale and total sales. Therefore, the company's policy related to the business strategy that will implement during the pandemic is one of the most important and crucial things, because in these conditions, business continuity is the company's top priority compared to obtaining company's profits.

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The government is trying to help companies survive during the COVID-19 pandemic by providing tax incentives in the form of reducing the corporate income tax rate to 22% for the 2020 - 2022 tax year [6][7]. Beside that, the government is also providing other tax incentives in the form of exemptions/reduction on installments of PPh Ps. 25, exemption on final income tax according to PP 23/2008, and so on.

Many studies have been conducted to examine the effect of business strategy on tax avoidance activities, but there are still inconsistencies in the research results, such as in the research of Higgins, et al [8] and Hsu, et al [9] which found that prospectors has significant impact to tax avoidance, but defenders has no significant impact to tax avoidance. This issue has also become very interesting to re-examine during the COVID-19 pandemic, where company profits have decreased or even suffered losses, and the government has provided many fiscal incentives to companies. Therefore, the main problem of this research is whether company management will continue to strive to carry out business strategies that have an impact on increasing tax avoidance activities during the COVID-19 Pandemic.

This study aims to determine the company's business strategy during the COVID-19 pandemic and analyze its effect on increasing tax avoidance activities.

2 Theory & Hyphothesis Development

2.1. Tax Avoidance

There is no consensus from experts yet regarding the definition of tax avoidance. Wang, et al [10] states that tax a voidance includes legal tax planning and illegal tax evasion. Tax planning is an effort to reduce the tax burden through investment and structuring business activities in accordance with tax laws and regulations. Tax evasion is an effort to avoid tax obligations through violations of tax laws and regulations.

The methods used to carry out tax avoidance activities continue to develop. Lastly, contractors [11] concludes there are 7 (seven) tax avoidance methods, namely (a) exemption/deffered foreign affiliate income; (b) *transfer pricing*; (c) royalty payment; (d) affiliation loans; (e) other holding company’s costs and overhead. ; (f) Round-tripping and avoiding currency convertibility restrictions, and; (g) Inversion .

2.2. Business strategy

In many tax studies, the type of business strategy that has been developed by Miles and Snow [12] is proper type of business strategy for researched, because the size of the company's business strategy can be generalized in various companies and industries [13].

Miles and Snow [12] introduced 3 (three) types of business strategies, namely: *a) Defenders*. Company with Defenders strategy will be try to create a stable market region, so company tend to aggressively prevent competitor enter to market with focus on competitive prices or high quality product. Technology efficiency very important for Defenders because they committed to focus on cost minimization strategy. Main risk of Defenders is ineffectiveness because inability to respond big changing on the market. Defender depend on narrow market continuity, and if the market moves to competitor, then Defenders have limited capacity to find and exploit new market areas.; *b) Prospectors*. Prospectors is more dynamic compared to other organizations in the same industry. Prospectors capabilities are finding and using new products and markets opportunity. For Prospectors, maintain reputation as innovator in product and market development as important as high profitability. So

Prospectors allocate, develop and maintain their capacity in seeking new environment, segment, and marketing area, create new opportunity and product. The risk is the inevitable failure of continuous product and market innovation, Prospectors is possible difficult to reach Defender's profitability which is more efficient.; *c) Analyzers*. The Analyzer is a combination of the Prospectors strategy and the Defenders strategy, namely a strategy that minimizes the risk and maximizes the opportunities to reach profit. Analyzers seek to combine the advantages of Defenders and Prospectors into one strategy. This strategy focuses on finding new market locations and creating products to targeting new consumers by following or imitating the successful innovations of Prospectors, and at the same time retaining current products and customers like Defenders. So the analyzer applies technological dualism, namely to meet the needs of flexibility and stability.

2.3. Hypothesis Development

Empirical evidence shows that tax avoidance activities in companies with a prospector strategy are higher than tax avoidance activities in companies with a defender strategy. [14][15][8][16][17]. In accordance with its characteristics, Defender will usually consider the costs incurred to carry out a tax avoidance strategy more than the benefits to be obtained from this strategy [14]. The additional costs for tax avoidance at Defender are considered to be detrimental to its competitive advantage. Different case with Prospector, benefit from tax avoidance in the form of low tax costs and high earnings after-tax will more considered. High cost resource and risk issue to implementing tax avoidance strategy is not a barrier. In this matter, Prospector has an advantage in funding if it compared with Defender, so that it will not interfere the Prospector's business continuity. However, Prospector also needs to consider the potential of company's damage reputation comes from the implementation of tax avoidance strategy. Therefore, Prospectors will usually try to minimize this risk by using the tax consultant services in fulfilling their tax rights and obligations (Phillips and Dunbar, 2001 in [14]). Based on explanation above, hypothesis 1a is:

H1a: Prospector's tax avoidance is higher than defender's.

Previous empirical evidence shows that tax avoidance activities in companies with a prospector strategy are higher than tax avoidance activities in companies with an analyzer strategy [15][8]. Prospector has high intensity on production of goods/services, and also flexibility, such as flexibility on changes in accordance with research results, flexibility in production and distribution technology, and so on. To support all of those necessary, Prospector requires investment funding and great resources, because of it, Prospector tend to choose the resources and funding that delivers high taxes benefit. However, this high intensity and flexibility can raises inefficiency and high business risk. Thus, the Prospector has ability to adapt with those risks. If compared with Prospector, Analyzer has a lower intensity when they try to entering a new market, promote a new product, and produce finished goods/services. In addition, Analyzer does not have such Prospector's flexibility, because Analyzer is also requires the defender's organizational stability. This condition will make costs incurred by the Analyzer to conduct a research, and procurement of technology are not as big as Prospector, so, the Analyzer's deductible expense in tax calculation is lower than prospector [14]. Besides that, the focus of Analyzer in maintaining the company's stability will reduce the intensity of tax avoidance activity. Thus, hypothesis 1b is:

H1b: Prospector's tax avoidance is higher than Analyzer.

Higgins (2012) in Arieftiara et, al [15] proved that Defender does higher tax avoidance than analyzers. Company with Defender strategy focuses on cost minimization, and always maintain company's stability and the narrow market to stay strong. Meanwhile, the Analyzer tries implementing a stable and flexible technology, but have a risk to generate inefficiency cost [12]. Analyzer is also lacking committed to maintaining company's stability and cost efficiency in comparison with Defenders [18]. Due to Defender focuses on cost minimization, so they are suspecting to have tax avoidance activities higher than Analyzer. Hypothesis 1c is:
H1c: The Defender's tax avoidance is higher than Analyzer

3 Research Methods

3.1. Data

Data used in this study is secondary data which taken from financial data that published by the company that listed at Indonesia Stock Exchange (BEI). The elimination criteria to determine the research sample are as follows:

Table 1. Research Sample Criteria.

No	Criteria	Eliminated	Sample
1	The companies operates in the manufacturing sector (Companies with sub-industry's definition is containing the word "Production")		252
2	The companies doesn't publish audited financial report for period 2020-2022	22	230
3	The companies doesn't publish audited financial report for period 2016-2019 (as required to measure variable business strategy)	69	161
4	The companies doesn't obtain *unqualified* opinion	1	160
5	Financial information that required doesn't available in their financial report like total employee, sales, and so on	8	152
	Total sample companies		**152**
	Total sample company year		**456**

Thus, the total research sample are 152 manufacture company that listed in BEI during the period 2020-2022, so the total sample that will be observed is 456 samples company-year.

3.2. Variable Definition and Measurement

Dependent Variable

Corporate tax avoidance (TAVOID) is tax planning through the legal way is to take advantage of loopholes in tax regulation to minimize the corporate tax expense. Referring to Gerrit Lietz's study [19], the research proxy was used to measure the legal tax avoidance is: a) *GAAP ETR*, is the ratio of income tax expense on earning before tax, which is used to measure tax avoidance in relation to accounting profit [20]. However, GAAP_ETR is still related to earnings management, and; b) CASH ETR, is the ratio of the income tax that has been paid on earning before tax, which reflects the delay payment of income tax to next tax period (ie, creates a temporary difference and does not affect to net income), and activities that avoid tax completely (ie, creates a permanent difference and affects to net income) [14]. The both proxies above, the lower GAAP_ETR and CASH_ETR values of company sample, so the higher the corporate tax avoidance activities [21].

To anticipating the measurement problem of both ETR, we refers to the solution provided by Gupta and Newberry (1997) in Higgins et al [14], as follows: a) setting an ETR of 0 (zero) for companies was got tax overpayment, and; b) setting an ETR of 100% for companies was got losses, however its company was still got tax underpayment should be paid. Besides, we will also refer to the solutions provided Higgins, et al [14] which states that if the income tax value that will be paid is not available, so the current tax expense will be used in ETR measurements.

Independent Variable

The company's business strategy (BSTRAT) is the strategy used to adapt with competitive environment. The business strategy variable (BSTRAT) consists of Prospector (PROSPECT) and Defender (DEFEND) variables. Referring to Bentley's research, et al. [13], there are 6 (six) measures of business strategy, are as follows: 1) Ratio of Research and Development to Sales (RDS): the ratio of research and development cost (R&D) on total sales (SALE). These proxies used to measure the tendency of the company in new market development or product; 2) Sales Growth (REV): the ratio of Company's sales growth. these proxies used to measure the company's commitment on sales growth; 3) Ratio of Employee to Sales (EMPS): ratio of total employees (EMP) to total sales (SALE). These proxies used to measure the company's ability to perform the activity of production and distribution of goods efficiently; 4) Employee turnover (σEMP): the standard deviation of total employees (EMP). This proxy used to measure the stability of the company's organization; 5) Marketing to sales (SGAS): the ratio of operational cost (which consists of selling expense, and administration and general expense) to total sales (SALES). these proxies used to measure the company's focus in exploiting new products and services, and; 6) Capital intensity (CAPINT): the ratio of net PPE on total assets (PPE/TA). It used to measure the company's commitment to technological efficiency.

The ratio above calculated based on weighted average over a 5-year period, and the results would be ranked by quintile. The highest quintile is scored of 5, and the lowest quintile will scored of 1 (except for the Capital Intensity (CAPINT) that will scored with reverse order). Then, the score of those proxies above will sum up, so we will got the total score of each sample. The maximum score is 30, and the minimum score is 6. Finally, the sample will be grouped into 3 (three) types of strategies, namely prospectors (sample with scores 24-30), analyzers (sample with scores 13-23), and defenders (sample with scores 6-12).

Control variable

The control variables will used are: a) Leverage (LEV). It is the ability of company to pay their loan that will measure using total debt divided by total assets. Leverage is necessary to be controlled so it believed that tax avoidance do not source from the high value of debt [15]; b) Intangible Assets (INTAN). it is the ratio of intangible asset to total assets. This ratio measure the intangible asset will using to affects tax avoidance activities [22]; c) Inventory Intensity (INVEN) can provide an overview of company's inventory needed to operating [22]. This ratio is measured using total inventory divided by total assets; d) Company Size (SIZE) needed to control the ability of company's management to operating in various situations and conditions encountered [22] and existence of political motivation in tax avoidance [15]. Company size measured by the natural logarithm of total assets, and; e) Profitability (ROA) is measure the company's performance that cause the value of income tax is changing every tax year. Profitability is measured by the earning after tax ratio divided by total assets.

3.3. Research Models

To test the hypothesis, we estimate the panel data regression model as following :

$$TAVOID_{it} = \alpha + \beta_1 DEFEND_{it} + \beta_2 PROSPECT_{it} + \beta_3 INTAN_{it} + \beta_4 INVENT_{it} + \beta_5 LEV_{it} + \beta_6 PROFIT_{it} + \beta_7 SIZE_{it} + \varepsilon_{it} \quad (1)$$

Where : *TAVOID* = Tax Avoidance consist of *GAAP ETR* and *CASH ETR*; *DEFEND* = defender strategy; *PROSPECT* = prospector strategy; *LEV* = Leverage; *INTAN* = Intangible Assets; *INVEN* = Inventory Intensity; *SIZE* = Company Size; *PROFIT* = profitability; α = intercepts; β = coefficient determination; *i* = sample year-company; *t* = period .

Panel data analysis combines cross-section data and time-series data [23]. There are 3 techniques panel data regression that can used namely Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). Determination of the estimation model panel data regression was performed with using the Chow Test (ie test used to choose between the Common Effect Model (H_0) or the Fixed Effect Model (H_a)) , the Hausman Test (ie test used to choose between the Fixed Effect Model (H_a) or the Random Effect Model (H_0)) , and the Lagrange Multiplier Test (ie test used to choose between the Common Effect Model (H_0) or the Random Effect Model (H_a)) .

In panel data regression, if the best estimator is selected is the Common Effect Model (CEM) or Fixed Effect Model (FEM) that uses Ordinary Least Square (OLS) approach, then the testing of classic assumption that will be done is heteroscedasticity and multicollinearity, meanwhile the testing like normality and autocorrelation can not be done because the normality test basically is not BLUE's requirement and autocorrelation is only occurs in time series data. Meanwhile, if the best estimator selected is the Random Effect Model (REM) that uses the Generalized Least Square (GLS) approach, then the testing of classic assumption that will be done is normality and multicollinearity, meanwhile the testing like heteroscedasticity and autocorrelation can not be done [24] because GLS is the method that used to overcome the heteroscedasticity problem [25], and the autocorrelation is only occurs in time series data.

4 Results & Discussion

4.1. Statistics Descriptive

Table 2. Descriptive Statistics

	GAAP ETR	CASH ETR	PROSPECT	DEFEND	LEV	INVENT	INTAN	SIZE	PROFIT
Mean	0,3957	0,1747	0,0614	0,1491	0,2295	0,1613	0,0184	21,8068	0,0544
Median	0,2278	0,0533	0,0000	0,0000	0,2139	0,1367	0,0004	20,6380	0,0403
Max	8,0317	3,1719	1,0000	1,0000	1,1947	0,6079	0,5393	30,9358	0,5926
Min	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	0,0000	11,9142	-0,4106
Std. Dev	0,6117	0,3555	0,2403	0,3566	0,2014	0,1261	0,0601	5,2313	0,1055
Observ.	456	456	456	456	456	456	456	456	456

Refers to descriptive statistics above, it can be concluded that the average (mean) GAAP ETR for period 2020-2022 are 0.3957 with median 0.2278. The highest GAAP ETR is 8.0317 (PRAS 2020) and the lowest is 0.0000 (56 samples). The average (mean) CASH ETR for

period 2020-2022 is 0.1747 with median 0.0533. The highest CASH ETR is 3.1719 (HOKI 2022) and the lowest is 0.0000 (124 samples). Then, standard deviation of GAAP ETR and CASH ETR respectively is 0.6117 and 0.3555, which are both values is above the mean value, it indicates that both variable data is vary. Last, we are also conclude that total sample that using Defender strategy are 68 sample, Prospector strategy are 28 sample, and Analyzer strategy are 360 sample.

4.2. Panel Data Regression Estimator Selection and Assumption Test Classic

Table 3. Results of Panel Data Regression Estimator Selection and Classical Assumption Test

	GAAP ETR		**CASH ETR**	
Chow test	0.0033 (H_0 rejected : FEM)		0.0000 (H_0 rejected : FEM)	
Hausman test	0.9633 (H_0 accepted : REM)		0.3692 (H_0 accepted : REM)	
LM test	0.4834 (H_0 accepted : CEM)		0.0000 (H_0 rejected : REM)	
Estimator Selected	Common Effects (CEM)		Random Effects (REM)	
Normality Test	-	-	0.0000 (H_0 rejected)	0.060975 (H_0 accepted)
Heteroscedasticity Test	H_0 rejected	H_0 accepted	-	-
Multicollinearity Test	H_0 accepted	H_0 accepted	H_0 accepted	H_0 accepted

Based on table above, it conclude that the selected estimator to testing panel data regression for dependent variable GAAP ETR is Common Effect Model (CEM), while the selected estimator to testing panel data regression for dependent variable CASH ETR is a Random Effect Model (REM). Then, the results of classical assumption test of CEM shows that the model got heteroscedasticity problem, meanwhile classical assumption test of REM shows that the data of dependent variable CASH ETR is abnormal. because of that, CEM will be tested using GLS with Cross Section Weight and Coef. Covariant methods-White Cross Section (Cluster Period), whereas for REM model, we found 40 sample are outlier data, so it will taken out and the respective data will transform using transformation square root (SQRT), so it can concluded that both models has meets the BLUE requirements.

4.3. Hypothesis Testing Results

panel data regression testing are as presented in the table below this :

Table 4. Hypothesis Testing Results

DESCRIPTION	**GAAP_ETR**		**SQRT_CASH ETR**	
	Coef.	Sig.	Coef.	Sig.
Intercepts	0.217321	0.0006	0.115326	0.0058
DEFEND	- 0.01843 6	0.3483	- 0.083836	0.0003*
PROSPECTS	0.054596	0.0388*	0.035232	0.2837
INTAN	- 0.27371 3	0.0145*	0.144322	0.4123
INVEN	- 0.112563	0.0093*	- 0.148348	0.0366*
LEV	0.197519	0.0157*	0.001301	0.9801
PROFIT	- 0.563618	0.0691	0.413609	0.0000*
SIZE	0.004849	0.0501	0.002490	0.1373
R-Squared	0.227111		0.146439	
Prob-F Statistics	0.000000		0.000000	

DESCRIPTION	GAAP_ETR	SQRT_CASH ETR
Defender (PROSPECT= 0)	0.198885	0.000990
Prospectors (DEFEND = 0)	0.271917	0.022670
Analyzer (PROSPECT & DEFEND = 0)	0.217321	0.013300

Referring to the table above, so the data panel regression formula are as follows:

$$GAAP\_ETR = 0{,}217321 - 0{,}018436\ DEFEND_{it} + 0{,}054596\ PROSPECT_{it} - 0{,}273713\ INTAN_{it} - 0{,}112563\ INVENT_{it} + 0{,}197519\ LEV_{it} - 0{,}563618\ PROFIT_{it} + 0{,}004849\ SIZE_{it} + \varepsilon_{it} \quad (2)$$

$$SQRTCASH\_ETR = 0{,}115326 - 0{,}083836\ DEFEND_{it} + 0{,}035232\ PROSPECT_{it} + 0{,}144322\ INTAN_{it} - 0{,}148348\ INVENT_{it} + 0{,}001301\ LEV_{it} + 0{,}413609\ PROFIT_{it} + 0{,}002490\ SIZE_{it} + \varepsilon_{it} \quad (3)$$

Based on the result above, we concluded that Prospector (PROSPECT) has positive effect to GAAP ETR and SQRT_CASH ETR. So, Prospector (PROSPECT) has negative effect to tax avoidance. However, this results is not significant to CASH ETR. The opposite result obtained by Defender, where the Defender (DEFEND) has negative effect to GAAP ETR and SQRT_CASH ETR. So, Defender (DEFEND) has positive effect to tax avoidance. However, this results is not significant to GAAP ETR. Thus, this result is not supports H_{1a}. The coefficient of Prospector (PROSPECT) in both models above is 0.054596 and 0.03532, meanwhile the coefficient of Defender (DEFEND) is -0.018436 and -0.083836. it show that the income that has paid by Prospector (0.271917 and 0.022670) is bigger than Defender (0.198885 and 0.000990). So, the tax avoidance activities by Prospector is lower than the tax avoidance activities by Defender.

The test results above is also shows that income tax payment by Prospector (0.271917 and 0.022670) is bigger than Analyzer (0.217321 and 0.013300), so H_{1b} is not supported, because the tax avoidance activities of Prospector is lower than the tax avoidance activities of Analyzer. Lastly, refer to both model, it also can conclude that income tax payment by Defender (0.198885 and 0.000990) is smaller than Analyzer (0.217321 and 0.013300), so H_{1c} with dependent variable CASH ETR has supported, because the tax avoidance activities of Defender is higher than the tax avoidance activities of Analyzer. But H_{1c} with dependent variable GAAP ETR is not supported.

Refers to the testing result of control variable, it concluded that the variable of intangible assets (INTAN) and inventory (INVENT) have an negatively effect and significant to GAAP ETR, but the variable of leverage (LEV) has positively effect and significant to GAAP ETR. The variable of Firm Size (SIZE) and Profitability (PROFIT) is not significant to GAAP ETR. Other results mentioned that Inventory (INVENT) has negatively effect and significant to SQRT_CASH ETR, but Profitability (PROFIT) has positively effect and significant to SQRT_CASH ETR. The variable of Intangible Assets (INTAN), Leverage (LEV), and Firm Size (SIZE) is not significant to SQRT_CASH ETR.

5 Conclusions

This research is a re-examine the impact of business strategy to tax avoidance that conduct before the COVID-19 pandemic. Difference economic and social condition between the condition before pandemic and the condition while the COVID-19 pandemic suspected will give different results to this study. Beside that, some fiscal policy that released by Indonesian government can also affect to the company's business strategy related to tax avoidance during the COVID-19 pandemic.

Refer to the hypothesis testing, we can concluded that Defender does higher tax avoidance activities compared to Prospector and Analyzer. This might be occurred because Defender committed to cost minimization. Defender has narrow market coverage, so they must increase tax avoidance activities to re-allocating their funding to protect their market, so their Consumer will loyal to them or doesn't move to competitor. Defender will effectively utilise the tax incentive during the pandemic to reduce income tax expense or just for postpone the tax payment to next tax year to. However, company's management should be warned about the tax risk will be borned from the tax avoidance that they did during the COVID-19 Pandemic.

Limitations of this study are : 1) this study is applied to manufacturing sector, so this study might be difficult to generalized it on another businesses sector, and; 2) we do not test the effect of business strategy to tax avoidance between both condition before and after the COVID-19 pandemic. So we can not conclude the main reason of this different result

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