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# The Influence of Financial Report Quality, Profitability and Tax Avoidance Practices on Business Value Through Financial Performance as a Mediating Variable in Banking Sector Companies

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**ABSTRACT**

*This research analyzes the influence of financial report quality, profitability, tax avoidance practices on financial performance; analyze the influence of financial report quality, profitability, tax avoidance practices on business value; and analyzing financial performance in mediating the relationship between financial report quality, profitability and tax avoidance practices and business value. The research sample was 20 (twenty) financial reports from 6 (six) banking companies listed on the Indonesia Stock Exchange (BEI) for the period 2017 to 2022, namely BNI, BRI, Bank Danamon, BCA, Bank CIMB Niaga and Bank Permata with 79 observations. The data collection technique was showed by accessing the official PT website. Indonesia stock exchange. The data analysis technique is path analysis with correlation and regression techniques. The research results show that the quality of financial reports has no effect on business performance; profitability influences business performance; tax avoidance practices have no effect on business performance; the quality of financial reports has no effect on business value; profitability influences the value of banking companies; tax avoidance practices have no effect on business value; financial performance has no effect on the value of banking companies; financial performance cannot mediate the relationship between financial report quality and business value; financial performance cannot mediate the relationship between profitability and firm value; and between tax avoidance practices and firm value.*

**KEYWORDS**

*quality of financial reports; profitability; tax avoidance practices; business value and financial performance.*

## INTRODUCTION

The establishment of a business cannot be separated from the aim of creating business value by maximizing shareholder wealth. The higher the business value, the affluent owner is. To maximize business value, special attention is required, especially in facing capital markets that are developing rapidly from time to time. Victory and Cheisviyani (2016) emphasize that companies in their business activities have the aim of increasing the value of the business in each period, which means it can be seen from the market price of its shares. The higher and maximum the business 's share price, this also reflects the increasing value of the business and vice versa, if the share price of a business decreases, it is certain that its business will also decrease. According to Aji (2017), with an increase in the price of a share, the security of shareholders increases. Mardiyati, Ahmad and Putri (2012) argue that the value

of companies that have gone public in the capital market is reflected in the business 's share price, while the value of companies that have not gone public is realized if the business is sold, the business 's prospects, business risks, business environment and others (Magdalena, 2019; Prayugi, Lujeng Indra, et.al, 2018). Maximizing the price (value) of shares means maximizing the value (value) of the business. This is because the main goal of business management is to maximize shareholder wealth (stockholders wealth maximization).

## RESEARCH METHODS

### *Data*

The research variables used in this research are financial report quality (X1) proxied by the covariance of sales and net profit, profitability (X2) proxied by ROA, tax avoidance (X3) proxied as an independent variable by C-ETR, financial performance (Z) proxied with PBV as the mediating variable, and firm value (Y) proxied by ROE as the dependent variable. This analysis aims to describe the description of the variables used in this research.

### *Data analysis methods*

#### *Descriptive Analysis*

Descriptive analysis aims to provide variations based on data analysis obtained in research. The analysis will link the data regarding averages, deviations, trends, certain patterns by connecting them to the theory underlying the research hypothesis.

#### *Analysis and Path Diagram*

Statistical data analysis for this research uses path analysis which is carried out using correlation and regression so that it can be seen that to arrive at the final dependent variable, it must go through a direct route or through variable mediation (Adityamurti, E and Ghozali, I, 2017). Before carrying out regression testing, it is necessary to test classical assumptions so that the regression model becomes a more representative model. The classic concept test consists of the data normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

**Table 1.** Normality Test After Outlier Test

***One-Sample Kolmogorov-Smirnov Test***

| | | *Unstandardized Residuals* |
|---|---|---|
| N | | 79 |
| Normal Parameters, b | Mean | 0.0000000 |
| | Std, Deviation | 0.27582069 |
| Most Extreme Differences | Absolute | 0.096 |
| | Positive | 0.058 |
| | Negative | -0.096 |
| Statistical Tests | | 0.096 |
| Asymp, Sig, (2-tailed) | | 0.069c |

*Source: Data Processing Results, 2023*

From table 1, it can be seen that the normality test results show a significance value of 0.069 which is greater than = 0.05. It can be assumed that the research data is normally distributed. Next, the research data is tested for other requirements.$\alpha$

**Multicollinearity test**

Multicollinearity testing is carried out by looking at the tolerance value and VIF (Variance Inflation Factor) value. The results of the multicollinearity test are:

**Table 2.** Multicollinearity Test

| Variable | *Tolerance* | VIF |
|---|---|---|
| KLK | 0.989 | 1,011 |
| Pf | 0.888 | 1,127 |
| PP | 0.965 | 1,037 |
| K. K | 0.899 | 1,112 |

*Source: Data Processing Results, 2023*

From table 2 it can be seen that variableKLK, Pf, PP, and KK, haveConsecutive Variance Inflation Factor (VIF) values1,011,1.127, 1.037And1,112< 10 and the tolerance value is0.988,0.888, 0.965 and0.899> 0.1, it can be concluded that there is no multicollinearity in the research data.

**Autocorrelation test**

Autocorrelation testing was carried out to test whether in the linear regression model there was a correlation between confounding errors in period t and confounding errors in period t-1. To detect symptoms of autocorrelation, it can be tested with the Durbin-Watson (DW Test). The results of the Durbin-Watson test are:

**Table 3.** Autocorrelation Test

***Model Summary b***

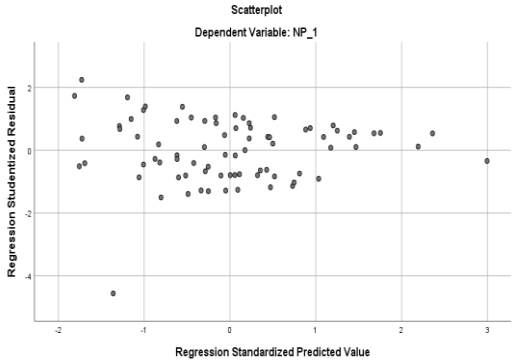
| *Model* | *Std, Error of the Estimate* | *Durbin-Watson* |
|---|---|---|
| 1 | 0.28318 | 1,676 |

*Source: Data Processing Results, 2023*

From table 3 it can be seen that the Durbin Watson (DW) value is1,676. Next, this value will be compared with the DW table value with a significance of 5%, it is known that the amount of data is n=79 and the number of independent variables is k=4, then a du value (upper limit) of1,742and dl (lower limit) is equal to1.5302. The DW value obtained is1,676turns out to be greater than the upper limit (du) sure1,530and is smaller than (4 - du) 4 –1,530=2,324ormeans du < dW < 4-du or1.5302<1,676<2,324, then research datacan be fulfilledso it can be concluded that the data does not contain autocorrelation.

**Heteroscedasticity Test**

In the heteroscedasticity test, the method most often used to determine whether a model is free from heteroscedasticity problems or not is simply by looking at the Scatter Plot.The heteroscedasticity test can also be carried out by looking at the scatterplot graph between the residual value of the dependent variable SRESID and the predicted value of the independent variable ZPRED. heteroscedasticity test results, namely:




*Source: Data processing results, 2023*

**Figure 1.** Heteroscedasticity Test

From figure 1 it can be seen that the data spread does not form a certain regular pattern, and the points spread above and below the number 0 on the Y axis, so it can be concluded that in this research data there is no heteroscedasticity.Based on the classical assumption test analysis, it can be explained that the tests for normality, multicollinearity, autocorrelation and heteroscedasticity have met the requirements so that the research data is suitable for proving research hypotheses through multiple linear regression tests.

### *Path Analysis*

Path analysis is an extension of multiple linear regression analysis (Dhani, Isabella Permata and Utama, A.A Gde Satia., 2017). Regression analysis was carried out three times. The first regression analysis is to determine the strength of the relationship between the independent variables (KLK, Pf, and PP) on the mediating variable (KK). The second regression analysis is to determine the strength of the relationship between the independent variables (KLK, Pf, and PP) and the mediating variable (KK) on the dependent variable (NP). The third regression analysis is to determine the strength of the direct and indirect relationship between the independent variables (KLK, Pf, and PP) on the dependent variable (NP) mediated (KK).

## RESULTS AND DISCUSSION

After proving the hypothesis, the next step will be explained according to the research findings.

The test results on the first structural equation in this research are:

**Table 4.** Multiple Linear Test Results (Substructure of Equation 1)

| Dependent Variable | Independent Variable | Regression Coefficients | t | Significance |
|---|---|---|---|---|
| K.K | KLK | 0.013 | 0.124 | 0.902 |
| | Pf | 0.346 | 2,857 | 0.006 |
| | PP | 0.076 | 0.841 | 0.403 |
| Constant (a) | | -1,203 | -1,927 | 0.058 |

*Source: Data Processing Results, 2023*

Based on table 4, the results obtained from calculating the Coefficientsa value can be developed using the multiple linear regression equation model substructure 1 to determine the influence of the independent variables (KLK, Pf and PP) with the mediating variable (KK) as follows:

$$KK = -1.203 + 0.013\ (KLK) + 0.346\ (Pf) + 0.076\ (PP) + e$$

Based on table 4, the following conclusions can be drawn:

a. On variables KLK tcount value is obtained 0.124 and significant value 0.902. Next, the ttable value is determined based on the formula dk=n-k=79–3=76, then we get ttable=1,992. This shows that tcount 0.124, smaller than $t_{table\ (n-k)}$ 1,992 and significant value viz 0.902 greater than 0.05. Thus, it can be concluded that H1 is rejected, meaning partially KLK does not influence onbanking business performance.
b. On variables Pf tcount value is obtained 2,857 and significant value 0.006. This shows that tcount 2,857, greater than $t_{table\ (n-k)}$ 1,992 and significant value viz 0.006smaller than 0.05. Thus, it can be concluded that H2 is accepted, meaning partially Pf significant and positive effect onbanking business performance.
c. On variables PP tcount value is obtained 0.841 and significant value 0.403. This shows that tcount 0.841, smaller than $t_{table\ (n-k)}$ 1,992 and significant value viz 0.403 greater than

0.05. Thus, it can be concluded that H3 is rejected, meaning partially PP nosignificant and positive effect onbanking business performance.

The substructure of model 2 aims to determine the effect of the independent variables (KLK, Pf and PP) on the dependent variable (NP), as follows.

**Table 5.** Multiple Linear Test Results (Substructure of Equation 2)

| Dependent Variable | Independent Variable | Regression Coefficients | t | Significance |
|---|---|---|---|---|
| N.P | KLK | -0.009 | -0.330 | 0.743 |
| | Pf | 0.114 | 3,215 | 0.002 |
| | PP | 0.043 | 1,710 | 0.091 |
| | K.K | -0.084 | -2,629 | 0.010 |
| Constant (a) | | -0.092 | -0.522 | 0.603 |

*Source: Data Processing Results, 2023*

Based on table 5, the calculation results for the Coefficientsa value can be obtained using the substructure 2 multiple linear regression equation model as follows:

$$NP =- 0.092 - 0.009 (KLK) + 0.114 (Pf) + 0.043 (PP) - 0.084 (KK) + e$$

Based on table 5, the following conclusions can be drawn:

1. On variables KLK tcount value is obtained -0.330 and significant value 0.743. This shows that tcount -0.330, greater than $t_{table\ (n-k)}$ -1,992 and significant value viz 0.743 greater than 0.05. It can be said that H4 is rejected, meaning partially KLK does not influence on NP banking.
2. On variables Pf tcount value is obtained 3,215 and significant value 0.002. Means tcount 3,215, greater than $t_{table\ (n-k)}$ 1,992 and significant value viz 0.002 smaller than 0.05. It can be said that H5 is accepted, meaning partially Pf influence on NP banking.
3. On variables PP tcount value is obtained 1,710 and significant value 0.091. Means tcount 1,710, smaller than $t_{table\ (n-k)}$ 1,992 and significant value viz 0.091 greater than 0.05. It can be said to be H6 d, meaning partially PP doesn't influence on NP banking.
4. On variables K.K tcount value is obtained -2,629 and significant value 0.010. Means tcount -2,629, smaller than $t_{table\ (n-k)}$ -1,992 and significant value viz 0.010 smaller than 0.05. It can be said that H7 is accepted, meaning partially K.K influence on NP banking.

The substructure of model 3 aims to determine the relationship between the independent variables (KLK, Pf and PP) with the dependent variable (NP) mediated by the KK variable, as follows.

**Table 6.** Multiple Linear Test Results (Substructure of Equation 3)

| Dependent Variable | Independent Variable | Regression Coefficients | t | Significance |
|---|---|---|---|---|
| N.P | KLK*KK | 0.315 | 0.902 | 0.370 |
| | Pf*KK | -0.332 | -1,491 | 0.140 |
| | PP*KK | 0.119 | 0.466 | 0.643 |
| Constant (a) | | -0.126 | -0.455 | 0.651 |

*Source: Data Processing Results, 2023*

Based on table 6, the calculation results for the Coefficients value can be obtained using the substructure 3 multiple linear regression equation model as follows:

$$NP = -0.126 + 0.315 (KLK*KK) - 0.332 (Pf*KK) + 0.119 (PP*KK) + e$$

Based on table, the following conclusions can be drawn:

1. Indirect influence between KLK with NP mediated banking KK obtained tcount value 0.902 and significant value 0.370. This shows that tcount 0.902 smaller than $t_{table\ (n-k)}$ 1,992 and significant value 0.370 greater than 0.05. It can be said that H9 is rejected, meaning that KK cannot mediate the relationship KLK with banking NP.
2. Indirect influence between Pf with NP mediated banking KK obtained tcount value-1,491 and significant value0.140. This shows that tcount-1,491 greater than $t_{table\ (n-k)}$-1,992 and significant value0.140 greater than 0.05. It can be said that H9 is rejected, meaning that KK cannot mediate the relationshipPf with banking NP.
3. Indirect influence between PP with NP mediated banking KK obtained tcount value 0.119 and significant value 0.643. This shows that tcount 0.119 greater than $t_{table\ (n-k)}$ 1,992 and significant value 0.643 greater than 0.05. It can be said that H10 is rejected, meaning that KK cannot mediate the relationshipPP with banking NP.

The substructure of model 3 shows that there is no indication that the mediating variable (KK) cannot mediate the relationship between the independent variables (KLK, Pf and PP) and the dependent variable (NP), so the Sobel test cannot be continued.

## CONCLUSION

Based on the research results and discussion described, it can be concluded that:

1. The quality of financial reports has no effect on business performance. The high or low quality of financial reports in a banking business cannot influence the business in increasing the amount of net profit (in conditions without debt), where the business has used capital from owner deposits and retained earnings.
2. Profitability influences business performance. The high or low profitability of a business 's banking can influence business management to increase net profit from every rupiah of funds embedded in equity
3. Tax avoidance practices have no effect on business performance. The implementation of high or low tax avoidance through banking business tax planning has no impact on increasing net income announced to shareholders.
4. The quality of financial reports has no effect on business value. The quality of banking reports is promised by banks that they will not be manipulated but cannot yet be used as a benchmark, causing banking share prices to decline or rise.
5. Profitability influences the value of banking companies. The profitability assessment seen from the capital side is interesting for investors because if the profits obtained by the business are high and the capital is also high, the profits obtained by investors will also be greater.
6. Tax avoidance practices have no effect on the value of banking companies. Shareholders respond less or negatively assess tax avoidance by management.
7. They view that low tax avoidance may not necessarily increase shareholder welfare as indicated by share prices.
8. Financial performance has no effect on the value of banking companies. Investors assess the high and low share prices by looking at the environmental conditions of the business in investing, in this case the size of the business 's equity is very closely related to the business 's liabilities (obligations).
9. Financial performance cannot mediate the relationship between the quality of financial reports and business value. High quality financial reports cannot guarantee improving business asset management to generate higher profits so that banking

business share prices also increase, so that financial performance is not an important part as a barometer of share prices.

10. Financial performance cannot mediate the relationship between profitability and business value. Banking companies' efforts to comply with the standards and provisions in SAK (Accounting Standards) to gain profits coupled with the role of stability in business profits cannot be used as a benchmark for the selling price of banking business shares.
11. Financial performance cannot mediate the relationship between tax avoidance practices and business value. Shareholders do not respond or assess tax avoidance actions carried out by banking management, because they feel that managing low taxes cannot guarantee increasing the welfare of shareholders who are entrusted with share prices. At the same time, it does not affect the increase in profits obtained in the current year.

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