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The Moderating Effect of Managers' Ability on the Relationship between Tax Avoidance and Firm Value in the Framework of Agency Problems[1]

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Research Paper

INTRODUCTION

This article aims to develop a model presented by Park et al. (2015). This research tries to resolve the shortcomings of the former research in investigating the role of a manager's ability by presenting a new model and enriching the background in this field. Thus, the present study regarding the conflict of interests between the manager and the owner presents a comprehensive model to investigate the role of the manager's ability. In this research, the role of managers' ability in the utilization of tax avoidance according to the conflict of interests between the manager and the owner has been considered and modeled to create value for shareholders

MATERIALS AND METHODS

The research plan of this study is based on the one-shot ex-post plan, employed to study the subjects after their incidence, without any control group. Moreover, the manipulation of the independent variables is not possible (Abdel-Kahalik and Ajinkia, 1979).

This research was eight years long (2013-2021) and the population consisted of companies listed on the Tehran stock exchange. According to

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the availability of information needed to perform the research, 1008 companies were considered.

To test the research hypotheses, it was necessary to calculate and estimate models 1 to 6. First, Model 1 was calculated in Microsoft Excel ۲۰۰۷ [illegible] business entity efficiency, which was considered the dependent variable of Model 2 (similar to Demerjian et al., 2012). Then, Model 2 was estimated using the Eviews software (version 7) and panel data regression. The estimation result of Model 2 was the calculation and estimation of the manager's ability variable. As previously mentioned, in this model, the remainder expresses the manager's ability.

Before fitting the main model of this research (Model 3), it was necessary to calculate and estimate models 4 and 6 Excel-2007. However, Model 5, through which tax avoidance can be appraised, was estimated using panel data regression and the Eviews software (7th version). The remainder of this model is tax avoidance, which is used as one of the main variables in Model ۳. [illegible] ۳ [illegible] presented here and the details of the results and calculations of the other models are excluded. Therefore, the result of Model 3 estimation and the test of research hypotheses are shown in Tables 1 to 3.

RESULTS AND DISCUSSION

Table 3. Regression model of panel data with fixed effects

Variable	Coefficient	Std. Error	t-Statistic	Prob.
β.	۰.۸۶۱	۰.۲۰۳	۴.۲۴۹	۰.۰۰۰
$MA_{i,t}$	−۰.۰۲۲	۰.۰۶۹	−۰.۳۱۶	۰.۷۵۲
$TaxAvoid_{i,t}$	−۰.۳۳۸	۰.۱۳۲	−۲.۵۵۴	۰.۰۱۱
$TaxAvoid_{i,t} \times MAhigh_{i,t}$	−۰.۴۴۱	۰.۲۳۲	−۱.۹۰۲	۰.۰۴۸
$FCF \times QThigh_{i,t}$	۲.۷۶۲	۰.۲۴۹	۱۱.۰۷۲	۰.۰۰۰
$FCF \times QThigh_{i,t} \times MAhigh_{i,t}$	۰.۷۰۱	۰.۲۳۱	۳.۰۳۷	۰.۰۰۰
$FCF \times QThigh_{i,t} \times MAhigh_{i,t} \times TaxAvoid_{i,t}$	۳.۵۴۱	۰.۷۲۰	۴.۹۱۶	۰.۰۰۰
$ROA_{i,t}$	۰.۱۰۸	۰.۲۸۰	۰.۳۸۷	۰.۶۹۹
$LEV_{i,t}$	۰.۴۷۱	۰.۰۹۱	۵.۲۰۴	۰.۰۰۰
$NOL_{i,t}$	۰.۱۸۹	۰.۰۶۱	۳.۰۷۳	۰.۰۰۲
$PPE_{i,t}$	۰.۱۰۹	۰.۰۹۸	۱.۱۱۷	۰.۲۶۴
$INTAN_{i,t}$	۰.۳۷۳	۰.۱۳۷	۲.۷۲۹	۰.۰۰۷

Variable	Coefficient	Std. Error	t-Statistic	Prob.
$SIZE_{i,t}$	−۰.۰۲۰	۰.۰۱۵	−۱.۳۶۴	۰.۱۷۳
$GROWTH_{i,t}$	۰.۰۰۰	۰.۰۰۰	۰.۸۲۵	۰.۴۱۰
$AGE_{i,t}$	−۰.۰۰۶	۰.۰۲۰	−۰.۲۹۰	۰.۷۷۲
$OCF_{i,t}$	۰.۶۷۳	۰.۱۴۹	۴.۵۲۴	۰.۰۰۰
INDUSTRY	included			
Weighted Statistics				
R-squared	۰.۶۰۴	Mean dependent var	۰.۸۹۹	
Adjusted R-squared	۰.۵۹۱	S.D. dependent var	۰.۹۴۷	
S.E. of regression	۰.۶۲۴	Sum squared resid	۳۷۷.۳۱۷	
F-statistic	۴۶.۱۸۱	Durbin-Watson stat	۱.۷۷۸	
Prob(F-statistic)	۰.۰۰۰			

The findings presented in the table present the estimated results of Model ۳. □□ □□□□□ ۳ □□□□□, □□□ □□□□□□ □□ □□□ □□□□□□□□□ ($\mathrm{TaxAvoid}_{i,t}$) and tax avoidance, and its interaction with the manager’s ability ($\mathrm{TaxAvoid}_{i,t} \times \mathrm{MAhigh}_{i,t}$) on the company value is significantly negative (at a significant level of 6%). Therefore, before considering the moderating effect of the conflict of interests, it should be noted that tax avoidance harms the company value regardless of the manager’s level of ability. These results confirmed secondary hypotheses 1 and 2.

CONCLUSION

Results showed that the research hypothesis, which states that “if the conflict of interests between the owner and the manager is low, a manager with high ability can reduce the negative effect of tax avoidance on the company value or strengthen its positive effect”, is confirmed. This means that when the conflict of interests is low, capable managers can use the tools for tax avoidance more effectively and in favor of the owner’s benefit and increase the company value. Thus, according to this result, it could be claimed that the proposed model was empirically verified. The findings of this research are similar to most of the findings from previous research, especially those done by Desai and Dharmpala (2006a, 2006b, 2009). These studies have stated that when the conflict of interest and the opportunistic behavior of a manager are controlled, tax avoidance becomes beneficial for the shareholders and causes an increase in the company value. So, a capable manager, in charge of a business entity, cannot guarantee the benefits of the shareholders. Thus, paying attention to supervising and incentive mechanisms, most likely by aligning the interests of the owner and the manager, can bring valuable benefits for the shareholders. Of course, the ability of the managers should not be unnoticed. Overall, based on the results of this research, it is recommended to the participants of the stock market and the capital market that, in addition to emphasizing employing capable managers, they should not neglect the use of supervising and incentive mechanisms for aligning their interests with that of the manager. Also, the stock exchange organization's attention to this issue can boost market prosperity and increase the confidence of the investors. The stock exchange organization can improve the prosperity of the capital market by enacting effective laws to empower corporate governance and by compiling mechanisms to prepare and disclose appropriate information about a manager's ability and ranking.

Keywords: Managers' Ability, Agency Problems, Tax Avoidance, Value Creation.

JEL Classification: C12, C33, C61.