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Effect of Corporate Financial Hedging, Risk Governance, Corporate Governance, Tax Avoidance on Firm value

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Abstract— **This research was conducted by looking at the phenomenon of recession that is predicted to occur in 2023 and the consideration of Covid-19 cases that have devastated the economy in the country for several years. There are many companies that feel disadvantaged and a sharp decline in the value of their companies. To increase company value, company owners improve company performance by conducting Corporate Financial Hedging, Risk Governance, Corporate Governance, Tax Avoidance. So that the purpose of this study was formed, namely to determine the influence of Corporate Financial Hedging, Risk Governance, Corporate Governance, Tax Avoidance on the value of Firms. The analysis method is descriptive statistical and Multiple Regression analysis.**

Keywords: corporate financial hedging, risk governance, corporate governance, tax avoidance, firm value.

I. INTRODUCTION

The global financial crisis has highlighted the need to strengthen the governance mechanisms of financial institutions. Weaknesses in the risk governance structure and over-taking have been identified as key determinants of the financial crisis that occurred since mid-2019 and began to recover in 2019, [1] . However, it is not until it really recovers from the Covid pandemic case, in 2023 there will be a major shock to the economy of each country, namely the phenomenon of recession. And this can already be seen from the UK interest rate at 2.25%, up 200 bps over 2022. The US has reached 3.25%, they raised another 75 bps, Brazil raised the interest rate to 13.7%, rose 450 bps during 2022, and Indonesia's own interest rate is currently at the level of 4.25%. The purpose of the state raising interest rates is to ease inflation from now on and maintain the stability of the country's economy and increase the value of enterprises.

In increasing the value of this company, there are efforts made by the company through corporate governance with the aim of increasing firm value. One of the efforts made by the company is to carry out corporate financial hedging activities, risk governance, corporate governance, and tax avoidance in order to increase firm value.

The hedging behavior of the company and its impact on the valuation of the company has attracted widespread attention in the financial literature of the company. Based on research from [2] observed that the use of financial derivatives for jet fuel hedging increased the value of companies in the aviation industry by more than 10%. For pharmaceutical and biotech companies [2] found that the use of financial derivatives for hedging was associated with greater corporate value and that greater value increased for companies subject to greater information asymmetry and higher growth opportunities. In contrast to sector-specific findings for positive hedging premiums,[2] provide empirical

evidence that hedging is not valued by higher valuations in the oil and gas industry.

Much has been discussed in the literature about the importance of firm value, especially in the areas of CG, IFRS, capital structure and risk management. In the context of risk management, it has been found that risk governance processes have a greater tendency to increase firm value. Studies have shown that an effective risk governance structure leads to the maximization of shareholder value by reducing the overall risk of the organization which always reduces the cost of capital [3]. Based on the research of John et al. (2008 [3]), in the study they noted that a consistent increase in firm value depends on the organization's risk management strategy. They found that the implementation of a holistic risk management system adds value to companies by reducing cash flow volatility, reducing revenue volatility and increasing revenue growth. Similarly, Miccolis et al. (2003) in Erin and Aribaba (2021)), agreed that an effective risk governance framework helps companies to increase the value of their companies by increasing return on capital, reducing expenses, increasing revenue and revenue growth.

Tax avoidance is seen as a tax-saving activity that increases firm value. Many previous studies have investigated the consequences of corporate tax avoidance in the capital markets. Zimmerman (1983 [4]), found that companies yang relatively large in terms of company size with other companies would be subject to higher ETRs. His findings are in line with the idea that more successful businesses are subject to tighter scrutiny and transfer more wealth to the government. In a later study, Desai and Dharmapala (2009 [4]), viewed corporate tax avoidance activities as a negative influence on firm value due to agency issues. examines the singular consequences of corporate tax avoidance from an agency perspective and does not consider that agency costs can be moderated by corporate governance. Shleifer and Vishny (1997 [4][4][4][4][4][4]) describe corporate governance as a system of control mechanisms, in which financial suppliers to companies convince themselves to get a return on their investment. The definition signifies the importance of corporate governance mechanisms in safeguarding the interests of shareholders, and stakeholders. Agency theorists have looked at the problem of tax avoidance associated with corporate governance issues[4].

Overall, the literature shows that shareholders/investors are protected by existing corporate governance and studies have largely found a link between corporate governance, which serves as a corporate monitoring mechanism. Taking into account the fact that agency issues are related to complex tax avoidance activities, the study postulates that corporate governance mechanisms will be able to reduce agency problems and improve the relationship between tax avoidance and firm value[4].

In Part 2, a comprehensive literature review has been conducted on four emerging research streams: corporate hedging, risk governance, tax avoidance and corporate governance and hypotheses have been developed. In Part 3, the research methodology includes types of research, sources of information and measurement of variables and regression models. Section 4 discusses the measurement scales that each variable will use in this study.

Problem Formulation

- Does *Corporate Financial Hedging* have a significant effect on firm value?
- Does *Risk Governance* have a significant effect on firm value?
- Does *Corporate Governance* significantly affect firm value?
- Does *Tax Avoidance* have a significant effect on firm value?

II. THEORETICAL FRAMEWORK

A. Agency Theory (Agency Theoy)

The theory of agency is based on the concept of separation between the owners and management of companies that seek to maximize their own interests. Agency theory is a theory that explains how the relationship between principle and agent arises, that is, a relationship that arises when a principal asks for help from an agent to make a certain transaction. In this case, the principal (lender) delegates the burden of proof to the managing agent (manager of the company) concerned.

B. Signal Theory

Signal theory is a theory that explains how companies place informational signs on investors to determine investment decisions. Signal theory has an important influence on firm value due to the market preceptibility that comes from external companies that only suspect the condition of the company in good or bad condition, with this signal the market can measure or determine the exact value of the company. Signal theory explains why companies have the motivation to share financial statement information with outsiders, because there is asymmetric information between the company and external parties [5].

C. Firm values

Firm value is a picture of a company's performance that can affect investors' assessment of a company. Firm value shows a reflection of the prosperity of the owners and shareholders seen in the company's share price [6]. A decrease in the company's value will reduce investor confidence in the company to the point of threatening the company's survival [7].

D. Corporate Financial Hedging

Corporate Financial Hedging or hedging is an agreement made to minimize the risk that will occur, the risk is usually exchange rate risk. Hedging will guarantee that the foreign exchange rate used to pay (outflow) or the amount of foreign exchange to be received (inflow) in the future will not be affected by changes in exchange rate fluctuations [8].

E. Risk Governance

Risk governance is part of corporate governance where one of the elements is the risk management committee. The existence of a risk management committee is expected to mitigate risks with a good and appropriate strategy so that companies can be better prepared to face more complex risks. The existence of a risk management committee is expected to provide more time and effort in combining the various risks faced by the company in general and evaluating the control of related risks as a whole, as well as allowing the Board of Commissioners to understand the company's risk profile more deeply [3].

F. Corporate Governance

According to the *Organization for Economic Cooperation and Development* (OECD) (2015) defines *Corporate Governance* as a system used to direct and control the company's business activities. *Corporate Governance* is in charge of regulating the distribution of duties, rights, and obligations that are interested in the life of the company, including shareholders, the governing board, managers, and all members of the company's stakeholders. According to Monks in Romdhoni (2015), *Good Corporate Governance* is a system that regulates and controls companies in order to get *added value* for all *stakeholders.*

G. Tax Avoidance

Tax avoidance is referred to as a strategy to increase the value of a company's shares. Tax avoidance has been used as a cost-effective tax tool for sending information from the government to companies that trade stocks. According to agency theory, engaging in tax avoidance activities can prevent the disclosure of financial information to investors, such as the financial condition of the company, or the receipt of financial documents. Tax avoidance is defined as a tax deduction with purely legitimate tax-saving activities at one end, while tax holding activities will be closer to a different goal. In addition to providing investors with a greater return on investment, tax avoidance has the potential to increase investor confidence in their ability to invest. The provision of this benefit can later increase Company Loyalty, it is indicated that firm value will increase [9].

Previous Research

Previous research is a study that has been carried out by previous researchers with the same title, topic, and variables to be used as a reference for further research. Previous studies that are in line with this study are as follows:

Table 1. Previous Research

Not	Name/Year	Heading	Result
1	Jerome Geyer-Klingeberg , Mark Hang & Andreas Rathgeber / 2020	Hedging of company finances and firm value: a meta-analysis	The results showed that in this study proposed that operational hedging and financial hedging have the same impact on firm value.
2	Olayinka Erin / 2021	Corporate risk and value governance: exploring hierarchical regression methods	The results showed that there is a positive and significant relationship with firm values.
3	Chen Siew Yee, Noor Sharoja Sapiei, Mazni Abdullah / 2018	Tax Avoidance, Corporate Governance and Firm values in the Digital Age	The results showed that tax avoidance negatively affects firm value and can even lower the value of the company. But corporate governance reduces the overall negative effects of tax avoidance on firm value. So that corporate governance gives positive results to firm value.
4	Ayman Issaa, Jalal Rajeh Hanayshab, Mostafa I. Elfekyc and Irfan Ullahd / 2019	The Impact of Board Gender Diversity on Firm values : Evidence from Kuwait	Results from the study show that the board's gender diversity delivers positive and significant results to the company's value.
5	Mian Sajid Nazira, Talat Afzab / 2018	Does managerial behavior in managing revenue reduce the relationship between corporate governance and firm values? Evidence of emerging markets	The results showed that governance has a positive effect on increasing firm value.
6	Ftouhi Khaoula, Dabboussi Moez / 2019	The moderating effect of the board of directors on firm value and tax planning: Proof of a company registered in Europe	The results showed that tax planning does not have an important role in determining firm value.
7	B. Espen Eckbo, Knut Nygaard, and Karin S.	Balancing Gender and Firm values Board	The results showed that women as a board did not have a negative

	Thorburn / 2019		influence on firm value.

Frame of Mind

Based on previous research references and based on existing problems, hypotheses can be formulated with a frame of mind such as the following figure 1:

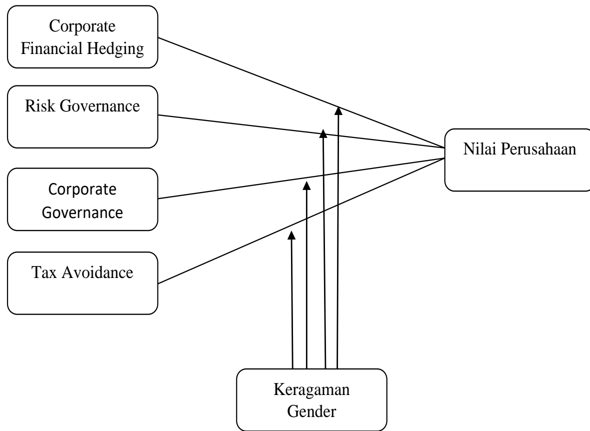

Figure 1. Frame of Mind

III. METHODOLOGY

Types of Research

The research method used is associative research, which is research that aims to determine the influence or relationship between two or more variabs (Sugiyono, 2003: 11). Associative method is a study that uses hypotheses to find causal relationships between independent variables and dependent variables (Sugiyono, 2011). The type of research used is descriptive quantitative research is research by obtaining data in the form of numbers or qualitative data that is estimated. (Sugiyono,2003:14)

Research Variables

Research Variables According to Sugiyono (2011) research variables are basically everything in the form of anything that is set by the researcher to be studied so that information about it is obtained and then conclusions are drawn.

A. Dependent Variables

Dependent Variables Variables (Y) dependent (bound) are variables that are influenced or that are the result of the existence of free variables, in this study namely An express value (Y).

B. Independent Variables

Independent Variables Variable X or Independent (free) is an influencing variable in this study is Corporate Financial Hedging (X1), Risk Governance (X2), Corporate Governance (X3), Tax Avoidance (X4).

C. Moderation Variables

Moderation Variables Moderation variables are variables that affect (amplify and weaken) the relationship between free variables and bound variables (Sugiyono: 2017). The moderation variable in this study is Gender Diversity (Z).

Data Analysis Methods

The analytical method used in this study is a quantitative analysis method. Where, quantitative analysis is an analysis that uses numbers, statistical calculations to analyze hypotheses, and several other analytical tools. Furthermore, the data obtained is processed using SPSS software, resulting in data that is processed in the form of tables, graphs, and conclusions to conclude the results of the analysis.

Descriptive Statistics

According to Sugiyono (2018: 147) Descriptive statistics are statistics used to analyze data by describing or describing the data that has been collected as it is without intending to make conclusions that apply to the general public or generalizations. Included in descriptive statistics is the presentation of data through tables, pie charts, graphs, average calculations, medians, modes, standard deviations, percentage calculations.

Multiple Regression Analysis

Multiple regression analysis is an analysis used to test the influence of linear relationships between two or more independent (free) variables on dependent (bound) variables with the aim of predicting the value of dependent variables based on independent variables. The independent variables used in this study are Corporate Financial Hedging (X1), Risk Governance (X2), Corporate Governance (X3), Tax Avoidance (X4). While the dependent variable used is Firm value (Y). In addition, multiple linear regression tests can also be used to measure the strength of the relationship between two or more variables, thereby indicating the direction of the relationship of the dependent variable with the independent variable. The form of the regression model used as the basis for the form of a linear function, namely:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \varepsilon$$

Information:

Y = Firm value

X1 = Corporate Financial Hedging

X2 = Risk Governance

X3 = Corporate Governance

X4 = Tax avoidance

X5 = Gender Diversity

α = Constants/Parameters

β = Regression Coefficient of each variable

ε = Error term

Hypothesis Testing

Hypothesis testing is the statistical testing of research carried out to obtain results from the acceptance and rejection of research hypotheses.

Effect of company financial hedging (X1) on the **Value** of **perusahaan (Y).**

Ho= Corprate financial hedging (X1) has no significant effect on firm value (Y).

Ha= The company's financial hedging (X1) has a significant effect on the value of the company (Y).

a. If the value of t is calculated > table t then Ho is rejected

If the value of t is calculated < table t then Ho is accepted

b. If the value of the < sign is 0.05 then Ho is rejected

If the value of the > sign is 0.05 then Ho is accepted

Effect of **Risk governance (X2) on firm value (Y).**

Ho= Risk governance (X2) has no significant effect on firm value (Y).

Ha= Risk governance (X2) has a significant effect on firm value (Y).

a. If the value of t is calculated > table t then Ho is rejected

If the value of t is calculated < table t then Ho is accepted

b. If the value of the < sign is 0.05 then Ho is rejected

If the value of the > sign is 0.05 then Ho is accepted

Effect of Tax Avoidance (X3) on firm value (Y).

Ho= Tax avoidance (X3) has no significant effect on firm value (Y).

Ha= Tax avoidance (X3) has a significant effect on firm value (Y).

a. If the value of t is calculated > table t then Ho is rejected

If the value of t is calculated < table t then Ho is accepted

b. If the value of the < sign is 0.05 then Ho is rejected

If the value of the > sign is 0.05 then Ho is accepted

Effect of Corporate Governance (X4) on firm value (Y).

Ho= Corporate governance (X3) has no significant effect on firm value (Y).

Ha= Corporate governance (X4) has a significant effect on firm value (Y).

a. If the value of t is calculated > table t then Ho is rejected

If the value of t is calculated < table t then Ho is accepted

b. If the value of the < sign is 0.05 then Ho is rejected

If the value of the > sign is 0.05 then Ho is accepted

IV. RESULT ADN DISCUSSION

The following are the measurements of independent variables and dependent variables that will be measured in this study as follows.

Table 2. Results

Variable	Measurement	Measurement Scale
Firm value (Y)	$\mathbf{Tobin'sq} = \frac{\mathbf{MVS + MVD}}{\mathbf{RVA}}$ $\mathbf{ROA} = \frac{\mathbf{Laba\ setelah\ pajak}}{\mathbf{Total\ Aktiva}} \times \mathbf{100\%}$	Ratio
Corporate Financial Hedging	Dummy Variables $\mathbf{Yi = a + \beta X + \gamma Di + \varepsilon i}$	Ratio
Risk Governance	UM $\mathbf{ERMIDI} = \frac{\mathbf{\sum ij\ D\ item}}{\mathbf{\sum ij\ AD\ item}}$	Ratio
Corporate Governance	$\mathbf{ACGS} = \frac{\mathbf{\Sigma cgi}}{\mathbf{M}}$	Ratio
Tax Avoidance	$\mathbf{Cash\ ETR} = \frac{\mathbf{\Sigma Cash\ Tax\ Paid}}{\mathbf{\Sigma Pretax\ Income}}$	Ratio

V. CONCLUSION

Seeing from the results of previous studies that still have inconsistent results, researchers are interested in examining whether there is an influence of corporate financial hedging, risk governance, corporate governance and tax avoidanve on firm values that will be applied to companies in Indonesia.

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