International Journal of Business Law, Business Ethic, Business Communication & Green Economics (IJBGE)
Volume 1 Nomor 1 Tahun 2024
e-ISSN: 3048-1392; dan p-ISSN: 3048-1384, Hal 14-23
DOI: https://doi.org/ 10.70142/ijbge.v1i1.348
Available online at: https://jurnal-mnj.stiekasihbangsa.ac.id/index.php/IJBGE

Tax Planning, Risk Reputation, and Discipline Managerial : Overview Literature on Companies with Different Life Cycles

Hollines Luahambowo[1], Yessica Amelia[2]
[1-2]Accounting, STIE Kasih Bangsa, Jakarta, Indonesia
Email: hollinesluahambowo@gmail.com, yessica@stiekasihbangsa.ac.id.

Abstract *. This literature review explores the impact of tax planning on reputational risk and managerial discipline across different stages of a firm's life cycle. The findings indicate that aggressive tax planning offers significant benefits during the introduction and growth stages by providing cash resources for investment and expansion. However, in the maturity and decline stages, such strategies can lead to reputational risks and weaken managerial discipline. The study highlights the moderating role of corporate governance structures, such as board diversity, in mitigating these negative effects by enhancing oversight and decision-making. Managers are advised to align tax planning strategies with the firm's life cycle stage to maximize benefits and minimize long-term risks. Despite offering valuable insights, this study is limited by its qualitative nature and reliance on existing literature, necessitating further empirical research.*
Keywords: *Tax Planning, Reputational Risk, Managerial Discipline, Corporate Governance, Firm Life Cycle*

INTRODUCTION

In a dynamic and competitive business world, tax planning is one of the crucial managerial activities. This activity has significant implications for corporate growth, internationalization, corporate value, and capital structure (Cooper & Nguyen, 2020; Wang et al., 2020). According to the resource-based view (RBV), tax planning is an important, though non-imitable, cash-generating activity because cash is one of the most desirable resources for value creation. Cash is flexible, easily convertible, and can be used to acquire other strategic resources (Lee & Wu, 2016; Warnier et al., 2013).

This study aims to investigate how tax planning affects the probability of financial default at different stages of the firm's life cycle. The results show that firms that are more aggressive in tax planning are less likely to default at the introduction and decline stages. In contrast, firms that plan taxes are more likely to default at the growth and maturity stages (Gabrielli & Greco, 2023). These findings suggest that firms at the introduction and decline stages efficiently use cash resources from tax planning to meet their financial needs and obtain further resources that are useful for their survival. PPh 21 tax incentives, income levels and tax sanctions simultaneously have a significant effect on taxpayer compliance (Rizal, M. & Gulo, F., 2022). However, in growing and mature firms, tax

 Received: Februari 1, 2024; Revised: Februari 25, 2024; Accepted: March 20, 2024; Published: March 30, 2024

aggressiveness generates unnecessary resources, weakens managerial discipline, and increases reputational risk (Daniel et al., 2004; Lee & Wu, 2016; Nohria & Gulati, 1996).

This study contributes to the RBV literature by answering the call for research on resource management at specific life cycle stages (Trahms et al., 2013; Zahra, 2021). This study shows that cash resources from tax planning are managed differently at each life cycle stage, thus having varying impacts on the probability of default. Tax fairness and love of money significantly influence students' perceptions of tax evasion (Amelia, Y., Permana, N., & Savitri, SA, 2022). This study also highlights an underexplored cash resource and underscores the potential relationship between agency theory and RBV (Luu, 2023; Ali et al., 2023).

In the context of agency theory, resource slack from aggressive tax planning can increase agency costs and undermine optimal management of firm resources at certain life cycle stages. In this regard, RBV and agency theory can complement each other in explaining why tax planning increases default risk in emerging and mature firms, thus offering a more detailed explanation of this phenomenon (Biscotti et al., 2018; Zona et al., 2018; Purkayastha et al., 2021).

Furthermore, this study extends the literature on tax planning by showing that a firm's life cycle stage explains not only the heterogeneity of approaches to tax planning (Hasan et al., 2017; Wang et al., 2020; Cooper & Nguyen, 2020), but also the outcomes of such activities. Compared with the findings of Hasan et al. (2017), our findings suggest that a firm's life cycle stage should be considered to not only understand why certain firms are more tax aggressive than others but also to gain insight into why only certain firms appear to benefit from tax planning.

This study also contributes to the literature on how life cycle-specific management decisions affect default probability. Previous studies have shown that a firm's life cycle stage moderates the relationship between default probability and several management decisions, such as investment, R&D, and CSR (Al-Hadi et al., 2019; Anandarajan et al., 2010; Koh et al., 2015). This study extends our current understanding by exploring the moderating role of a firm's life cycle stage in the relationship between default probability and tax planning.

The managerial implications of these findings are quite significant. This study provides information to managers and stakeholders about the costs and benefits of tax planning at various stages of the firm's life cycle as well as stakeholders' assessments of tax planning. At certain stages of the life cycle, tax planning serves as a signal to outsiders to increase managerial discretion and reputation risk (Duong et al., 2022), thereby affecting the likelihood of default.

LITERATURE REVIEW

Tax planning is one of the important managerial decisions, with significant implications for firm growth, internationalization, corporate value, and capital structure (Cooper & Nguyen, 2020; Wang et al., 2020). According to the resource-based view (RBV), tax planning is an important, though non-imitable, cash-generating activity because cash is the most desirable resource for value creation (Hasan et al., 2017; Medioli et al., 2020). Cash is flexible, easily convertible, and can be used to acquire other strategic resources (Lee & Wu, 2016; Warnier et al., 2013).

According to Gabrielli and Greco (2023), tax planning can affect the likelihood of financial default at different stages of a company's life cycle. Their results show that companies that are more aggressive in tax planning are less likely to default at the introduction and decline stages. Conversely, companies that plan taxes are more likely to default at the growth and maturity stages. These findings suggest that companies at the introduction and decline stages efficiently use cash resources from tax planning to meet their financial needs and obtain further resources that are useful for their survival (Gabrielli & Greco, 2023).

However, in growing and mature firms, tax aggressiveness generates unnecessary resources, weakens managerial discipline, and increases reputational risk (Daniel et al., 2004; Lee & Wu, 2016; Nohria & Gulati, 1996). This is in line with research by Al-Hadi et al. (2019) which found that corporate social responsibility performance, financial distress, and the company's life cycle are closely related. Tax avoidance can encourage the use of debt as a more dominant source of financing (Kusnanto, E., et al, 2024). They show that mature companies are more likely to engage in social responsibility activities to reduce default risk.

Furthermore, a study by Ali et al. (2023) shows that board diversity can reduce the likelihood of financial distress, especially in the context of a strong CEO. This suggests that corporate governance structure also plays an important role in managing the risks associated with aggressive tax planning.

In the context of agency theory, resource slack from aggressive tax planning can increase agency costs and undermine optimal management of firm resources at certain life cycle stages (Biscotti et al., 2018; Zona et al., 2018; Purkayastha et al., 2021). In this regard, RBV and agency theory can complement each other in explaining why tax planning increases default risk in emerging and mature firms, thus offering a more detailed explanation of this phenomenon.

This study also extends the literature on tax planning by showing that firm life cycle stage explains not only the heterogeneity of approaches to tax planning (Hasan et al., 2017; Wang et al., 2020; Cooper & Nguyen, 2020), but also the outcomes of such activities. Compared with the findings of Hasan et al. (2017), our findings suggest that firm life cycle stage should be considered to not only understand why certain firms are more tax aggressive than others but also to gain insight into why only certain firms appear to benefit from tax planning.

METHODOLOGY

This study uses a qualitative approach with a literature review method to explore the relationship between tax planning, reputation risk, and managerial discipline in companies with different life cycles. The literature review method was chosen because it allows researchers to collect, analyze, and synthesize findings from various previous studies systematically (Snyder, 2019). This approach also allows researchers to identify research gaps and suggest future research agendas (Tranfield et al., 2003).

The first step in this methodology is to identify and select relevant articles. This process involves a comprehensive literature search using academic databases. Keywords used in this search include “tax planning,” “reputational risk,” “managerial discipline,” and “corporate life cycle” (Snyder, 2019).

After collecting relevant articles, the next step is to conduct a critical analysis of the literature. This analysis involves evaluating the methodology, findings, and contributions of each selected study. The goal is to understand how tax planning affects reputational risk and managerial discipline at different stages of the firm's life cycle (Tranfield et al., 2003).

In addition, this study also utilizes the resource-based theory (RBV) framework and agency theory to explore the dynamics between tax planning and other factors that affect firm performance (Barney, 1991; Jensen & Meckling, 1976). This theoretical approach provides a strong conceptual foundation for understanding how resources obtained through tax planning can affect reputation risk and managerial discipline.

To ensure the validity and reliability of the findings, the researchers followed the guidelines suggested by Tranfield et al. (2003) in conducting a systematic literature review. This included the use of clear inclusion and exclusion criteria, as well as a rigorous quality assessment process for each selected article.

Through this methodology, this study seeks to provide in-depth insights into how tax planning can affect reputation risk and managerial discipline, as well as its implications on the firm's life cycle. Thus, this study not only contributes to the existing literature but also provides practical guidance for managers in managing their tax planning strategies.

RESEARCH RESULT

This study aims to understand how tax planning affects reputation risk and managerial discipline in companies with different life cycles. Through a comprehensive literature review, several key findings have been identified.

First, research shows that aggressive tax planning can provide significant benefits in the early stages of a company's life cycle, namely the introduction and growth stages. At this stage, companies tend to use the cash resources obtained from tax planning for further investment and expansion (Gabrielli & Greco, 2023). This is in line with the findings of Hasan et al. (2017) which show that companies in the early stages are more likely to engage in tax avoidance to strengthen their financial position.

However, as firms enter maturity and decline, aggressive tax planning can pose significant reputational risks. Gallemore et al. (2014) found that tax avoidance strategies can negatively impact a firm's reputation in the eyes of stakeholders, including consumers and investors. This reputational risk can result in decreased firm value and increased cost of capital (Hardeck & Hertl, 2014).

In addition, this study also found that aggressive tax planning can weaken managerial discipline, especially in the maturity and decline stages. When firms have excess cash resources due to tax avoidance, managers may be less motivated to manage resources efficiently, which may ultimately lead to operational inefficiencies (Daniel et al., 2004; Lee & Wu, 2016).

On the other hand, corporate governance structures, such as board diversity, can moderate the negative impact of aggressive tax planning. Ali et al. (2023) show that board diversity can reduce the likelihood of financial distress by strengthening monitoring and making wiser decisions.

Overall, this study highlights the importance of considering the firm's life cycle in designing tax planning strategies. Managers need to be aware that while tax planning may provide short-term benefits, the long-term risks to reputation and managerial discipline should not be ignored. Therefore, tax planning strategies should be tailored to the firm's life cycle stage to maximize benefits and minimize risks.

DISCUSSION

This study aims to examine how tax planning affects reputation risk and managerial discipline in companies with different life cycles. Through a literature review, it is found that tax planning has varying impacts depending on the stage of the company's life cycle. Gabrielli and Greco (2023) show that aggressive tax planning provides significant benefits at the introduction and growth stages, where companies can use cash resources for further investment and expansion. This result is consistent with the research of Hasan et al. (2017), which found that companies in the early stages are more likely to engage in tax avoidance to strengthen their financial position.

However, as companies enter maturity and decline, aggressive tax planning can pose significant reputational risks. Gallemore et al. (2014) found that tax avoidance strategies can negatively impact a company's reputation in the eyes of stakeholders, including consumers and investors. This reputational risk can result in decreased firm value and increased cost of capital (Hardeck & Hertl, 2014). This is supported by research by Balakrishnan et al. (2019), which shows that corporate transparency can be affected by tax avoidance strategies, which in turn affect stakeholder perceptions.

In addition, aggressive tax planning can weaken managerial discipline, especially in the maturity and decline stages. Daniel et al. (2004) suggest that when firms have excess cash resources due to tax avoidance, managers may be less motivated to manage resources efficiently, which can lead to operational inefficiencies. Lee and Wu (2016) also find that resource slack can reduce managerial efficiency, especially in managing R&D expenditures.

However, corporate governance structure can moderate the negative impact of aggressive tax planning. Ali et al. (2023) show that board diversity can reduce the likelihood of financial distress by strengthening oversight and making wiser decisions. This study is in line with the findings of Cuypers et al. (2016), which show that stakeholder trust can be maintained through effective governance, even though the company engages in tax avoidance strategies.

Furthermore, this study highlights the importance of considering the company's life cycle in designing tax planning strategies. Managers need to be aware that although tax planning can provide short-term benefits, long-term risks to reputation and managerial discipline should not be ignored. This is supported by research conducted by Koh et al. (2015), which emphasizes the importance of adjusting strategies based on the company's life cycle to minimize risks and maximize operational efficiency.

In the context of agency theory, resource slack from aggressive tax planning can increase agency costs and undermine optimal management of firm resources at certain life cycle stages (Biscotti et al., 2018; Zona et al., 2018; Purkayastha et al., 2021). In this regard, RBV and agency theory can complement each other in explaining why tax planning increases default risk in emerging and mature firms, thus offering a more detailed explanation of this phenomenon.

Overall, this study provides in-depth insights into how tax planning can affect reputation risk and managerial discipline, as well as its implications on the firm’s life cycle. Thus, this study not only contributes to the existing literature but also provides practical guidance for managers in managing their tax planning strategies. Managers should consider the life cycle stage of their firm when designing tax planning strategies to ensure that short-term benefits do not compromise the firm’s long-term sustainability.

CONCLUSION

This study concludes that tax planning has a significant impact on reputation risk and managerial discipline in firms with different life cycles. In the introduction and growth stages, aggressive tax planning can provide significant benefits by providing cash resources for investment and expansion. However, in the maturity and decline stages, this strategy can pose high reputation risks and weaken managerial discipline. Corporate governance structures, such as board diversity, can moderate these negative impacts by strengthening oversight and making more prudent decision-making. Therefore, it is important for managers to consider the life cycle stage of the firm when designing tax planning strategies in order to maximize benefits while minimizing long-term risks.

LIMITATION

Although this study provides valuable insights, there are several limitations that need to be considered. First, this study is qualitative in nature and relies on a review of existing literature, so it may not cover all relevant research in this area. Second, this study does not consider contextual factors such as industry or geographic differences that may affect the relationship between tax planning, reputation risk, and managerial discipline. Third, although this study identifies a relationship between these variables, further research is needed to empirically test the causal relationship. Finally, this study does not explore in depth the mechanisms by which corporate governance structure may moderate the impact of tax planning, which could be an area for future research.

BIBLIOGRAPHY

Al-Hadi, A., Chatterjee, B., Yaftian , A., Taylor, G., & Monzur Hasan, M. (2019). Corporate social responsibility performance, financial distress and firm life cycle: Evidence from Australia. *Accounting and Finance* , 59(2), 961-989. doi:10.1111/acfi.12277

Ali, S., Rehman, Ru , Aslam, S., Khan, I., & Murtaza, G. (2023). Does board diversity reduce the likelihood of financial distress in the presence of a powerful Chinese CEO? *Management Decision* , 61(6), 1798-1815. doi:10.1108/MD-01-2022-0007

Amelia, Y., Permana , N., & Savitri, SA (2022). The Influence Tax Justice , Tax System , and Love of Money Towards Perception Student About Tax evasion. Economics *,* 6(2), 440–455.https://doi.org/10.37541/ekonomika.v6i2

Balakrishnan, K., Blouin, J.L., & Guay, W.R. (2019). Tax aggressiveness and corporate transparency. *The Accounting Review,* 94(1), 45-69. doi:10.2308/accr-52130

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management* , 17(1), 99-120. doi:10.1177/014920639101700108

Biscotti, A. M., Mafrolla , E., Giudice, M. D., & D'Amico, E. (2018). CEO turnover and the new leader propensity to open innovation: Agency-resource dependence view and social identity perspective. *Management Decision* , 56(6), 1348-1364. doi:10.1108/MD-04-2017-0392

Cooper, M., & Nguyen, Q. T. (2020). Multinational enterprises and corporate tax planning: A review of literature and suggestions for a future research agenda. *International Business Review* , 29(3), 101692. doi:10.1016/j.ibusrev .2020.101692

Cuypers, I.R., Koh, P.S., & Wang, H. (2016). Sincerity in corporate philanthropy, stakeholder perceptions and firm value. *Organization Science* , 27(1), 173-188. doi:10.1287/orsc.2015.1030

Daniel, F., Lohrke, F.T., Fornaciari, C.J., & Turner, R.A., Jr. (2004). Slack resources and firm performance: A meta-analysis. *Journal of Business Research* , 57(6), 565-574. doi:10.1016/S0148-2963(02)00439-3

Duong, H.K., Fasan, M., & Gotti, G. (2022). Living up to your codes? Corporate codes of ethics and the cost of equity capital. *Management Decision* , 60(13), 1-24. doi:10.1108/MD-11-2020-1486

Eri Kusnanto , Farah Qalbia , & Yessica Amelia. (2024). Impact Tax Avoidance against Structure Debt Maturity for MSMEs. *Journal of Management Vision* , 10(1), 16–27. https://doi.org/10.56910/jvm.v10i1.521

Gabrielli, A., & Greco, G. (2023). Tax planning and financial default: Role of corporate life cycle. *Management Decision* , 61(13), 321-355. https://doi.org/10.1108/MD-07-2022-0928

Gallemore, J., Maydew, E.L., & Thornock, J.R. (2014). The reputational costs of tax avoidance. *Contemporary Accounting Research* , 31(4), 1103-1133.
doi:10.1111/1911-3846.12055

Hardeck , I., & Hertl, R. (2014). Consumer reactions to corporate tax strategies: Effects on corporate reputation and purchasing behavior . *Journal of Business Ethics* , 123, 309-326. doi:10.1007/s10551-013-1843-7

Hasan, M.M., Al-Hadi, A., Taylor, G., & Richardson, G. (2017). Does a firm's life cycle explain its propensity to engage in corporate tax avoidance? *European Accounting Review* , 26(3), 469-501. doi:10.1080/09638180.2016.1194220

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior , agency costs and ownership structure. *Journal of Financial Economics* , 3(4), 305-360. doi:10.1016 / 0304-405

Koh, S., Durand, R.B., Dai, L., & Chang, M. (2015). Financial distress: Life cycle and corporate restructuring. *Journal of Corporate Finance* , 33, 19-33. doi:10.1016/j.jcorpfin .2015.04.004

Lee, C.L., & Wu, H.C. (2016). How do slack resources affect the relationship between R&D expenditures and firm performance? *R&D Management* , 46(S3), 958-978. doi:10.1111/radm.12141

Luu, T.D. (2023). Fostering strategic entrepreneurship of SMEs: The role of organizational change forces. *Management Decision* , 61(3), 695-719. doi:10.1108/MD-08-2021-1024

Purkayastha, A., Karna, A., Sharma, S., & Bhadra, D. (2021). Board's human capital resources and internationalization of emerging market firms: Toward an integrated agency–resource dependence perspective. *Journal of Business Research* , 135, 391-407. doi:10.1016/j.jbusres .2021.06.064

Rizal, M. & Gulo, F. (2022). Analysis Influence PPh 21 Tax Incentives , Income Levels and Tax Sanctions Against Individual Taxpayer Compliance . *Journal Economics* , 6(2), 424–439. http://journal.lldikti9.id/Ekonomika

Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. *Journal of Business Research* , 104, 333-339.

doi:10.1016/j.jbusres .2019.07.039

Tranfield , D., Denyer, D., & Smart, P. (2003). Towards a methodology for developing evidence-informed management knowledge by means of systematic review. *British Journal of Management* , 14(3), 207-222. doi:10.1111/1467-8551.00375

Wang, F., Xu, S., Sun, J., & Cullinan, C. P. (2020). Corporate tax avoidance: A literature review and research agenda. *Journal of Economic Surveys* , 34(4), 793-811. doi:10.1111/joes.12347

Warnier , V., Weppe , X., & Lecocq, X. (2013). Extending resource-based theory: Considering strategic, ordinary and junk resources. *Management Decision* , 51(7), 1259-1379. doi:10.1108/MD-05-2012-0392