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The Impact of Tax Planning and Good Corporate Governance on Firm Value

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Abstract

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This study highlights the pivotal role of tax planning and Good Corporate Governance (GCG) in enhancing firm value and promoting long-term sustainability. The findings show that companies with well-structured governance frameworks and strategic planning are better positioned to increase profitability, attract investors, and sustain competitiveness in the global market. The Board of Directors is instrumental in developing policies and strategies aligned with organizational objectives, while the Board of Commissioners ensures oversight and accountability, supporting balanced decision-making. Effective governance mechanisms, including independent audit committees and transparent disclosures, help reduce agency conflicts and strengthen financial performance. Additionally, factors such as company size and audit committee effectiveness are shown to affect governance outcomes. Beyond financial returns, the study underscores the importance of sustainability, corporate social responsibility, and transparency as essential elements for cultivating investor trust and enhancing corporate reputation. Consequently, implementing sound corporate governance practices is critical not only for improving financial performance but also for fostering responsible and sustainable business operations.

1. Introduction

The implementation of Good Corporate Governance (GCG) has become a central focus in modern business practices, recognized as a key factor in improving financial performance and ensuring long-term sustainability of public companies. Corporate governance encompasses the structures, policies, and processes used to direct and control organizations, ensuring accountability, fairness, and transparency in operations and in the relationship with stakeholders. Effective GCG optimizes value for both shareholders and broader stakeholders, enabling companies to anticipate future needs while meeting investor and customer expectations. Strong governance can improve access to financing, reduce capital costs, enhance performance, and support favorable stakeholder relationships. In a competitive, globalized business environment, good governance serves as a critical driver for corporate survival and growth.

The link between corporate governance and financial performance is multidimensional and widely studied. Implementing GCG mechanisms enhances firm performance while considering company size and operational scale. The audit committee plays a vital role in overseeing financial reporting, preventing fraud, and ensuring directors operate effectively. Sound governance aligns managerial and shareholder interests, mitigating agency problems that can undermine financial outcomes (Bahoo et al., 2019). This alignment encourages managers to make decisions that maximize shareholder value, improving profitability and return on investment. Similarly, the board of commissioners ensures regulatory compliance and effective oversight, enabling the control function to operate optimally. Firms with strong governance practices not only enhance accountability but are also better positioned to attract both domestic and international investment (Cumming et al., 2017). Additionally, investors increasingly evaluate corporate social responsibility and human rights due diligence, such as sustainable supply chain practices, as indicators of governance quality and competitive advantage.

Good corporate governance involves several critical dimensions that shape its effectiveness. Board structure and composition, transparency, shareholder rights, and ethical conduct are fundamental components. The balance between independent and executive directors ensures objective oversight and strategic decision-making (Puwanenthiren et al., 2021). Transparency is essential for informed decision-making, requiring openness in processes and the provision of relevant information (Syofyan & Putra, 2020). Effective boards monitor organizational functioning without interfering in day-to-day management, ensuring both control and operational efficiency (Vittal, 1998). Comprehensive disclosure of financial and non-financial information is necessary for stakeholders to assess performance and risks. Respecting shareholder rights, including voting, access to information, and participation in governance, further strengthens corporate accountability.

Despite the benefits, effective implementation of GCG faces challenges. Corruption and agency problems arising from the separation of ownership and control can persist even in well-designed governance systems, particularly when managerial incentives are misaligned with shareholder interests (Ararat et al., 2021). Good governance demands ethical conduct and integrity at all organizational levels. Corruption can be driven by scarcity, lack of transparency, and delays in decision-making. Financial institutions face additional hurdles, including attracting highly skilled board and management personnel in complex business environments with innovative products.

The impacts of good corporate governance extend beyond the company, benefiting various stakeholders. Employees experience a culture of fairness, transparency, and ethical behavior, promoting engagement and productivity. Customers benefit from improved product quality, service, and ethical business practices. Stakeholders receive better information and can participate meaningfully in governance processes. Integrating corporate social responsibility and sustainability into governance enhances public trust and community acceptance, supporting the firm's long-term viability. GCG strengthens financial performance, supports sustainable operations, and influences investment decisions positively. This research aims to examine the relationship between GCG implementation and corporate financial performance, exploring key dimensions and challenges of applying good governance practices. The study also seeks to identify how GCG affects stakeholders such as shareholders, employees, and consumers, and to analyze how governance structures enhance transparency, accountability, and sustainability. Furthermore, it investigates the role of GCG in reducing agency problems, optimizing firm performance, and addressing the practical challenges in implementing governance mechanisms effectively.

2. Literature Review

The implementation of Good Corporate Governance (GCG) is widely recognized as a critical factor in enhancing firm value for both shareholders and stakeholders over the long term. GCG encompasses the systems, structures, and processes that guide and control corporate behavior, ensuring accountability, transparency, and fairness in interactions with stakeholders. In today's complex business environment, effective governance practices are increasingly viewed as a key driver of firm performance and value (Hamsyi, 2019). The positive relationship between GCG and firm value can largely be explained by the role of governance in reducing agency costs, which arise when managers (agents) act in ways that may not align with shareholder interests. By aligning managerial decisions with shareholder objectives, GCG minimizes conflicts of interest, improves corporate performance, and enhances overall company value (Handayani & Rahayu, 2019).

A well-governed company becomes more attractive to investors, as it signals lower investment risk and greater potential for sustainable growth. Clear and consistent reporting under GCG provides investors with reliable information to assess a company's financial health and future prospects. By reducing agency costs and improving transparency, GCG enhances reputation and investor confidence, ultimately strengthening a company's competitive position (Barauskaite & Streimikiene, 2021). Beyond financial performance, modern investors also consider ethical, social, and environmental aspects of corporate operations. Companies are increasingly expected to implement human rights due diligence and ensure sustainable supply chains, which aligns with global standards of responsibility and fairness. Communicating a commitment to ethical and sustainable practices can further improve a company's appeal to socially responsible investors and differentiate it from competitors (Chuang & Huang, 2018).

Effective GCG not only drives financial performance but also enhances corporate reputation, fostering trust among investors, employees, customers, and other stakeholders. This trust promotes loyalty, customer satisfaction, and community support, all of which contribute to long-term success. By embedding transparency, accountability, and ethical conduct into corporate operations, firms are better equipped to navigate complex markets and maintain sustainable growth (Wong et al., 2021). In summary, good corporate governance is instrumental in optimizing firm value, improving investor confidence, and sustaining competitive advantage. Companies that implement robust governance structures and ethical practices are positioned to achieve long-term growth while meeting the expectations of shareholders, stakeholders, and society. The integration of GCG into corporate strategy ensures that companies operate responsibly, maintain transparency, and foster strong relationships with all stakeholders, ultimately securing their relevance and success in an increasingly globalized economy.

3. Methods

This study utilizes a library research methodology aimed at examining the relationship between corporate governance practices and company performance. The research depends on secondary data sourced from the financial statements of firms listed on the Indonesia Stock Exchange (IDX). These financial statements are selected because they provide standardized, reliable, and publicly accessible information that accurately reflects the actual conditions of the companies. The data collection process involves choosing financial reports from companies that fulfill predetermined criteria, such as completeness of disclosure, consistency in reporting, and compliance with regulatory standards. Once collected, the data is systematically analyzed to identify trends, correlations, and patterns between the implementation of good corporate governance and key indicators of firm value and performance. Analytical procedures include descriptive and comparative techniques, allowing the researcher to evaluate how effectively corporate governance practices are linked to company outcomes. By employing these methods, the study ensures a high degree of objectivity and relevance in addressing the research questions. Overall, this approach provides a structured framework for assessing the influence of governance mechanisms on financial performance, offering insights into how transparency, accountability, and board effectiveness contribute to the sustainable growth and value creation of publicly listed companies in Indonesia.

4. Results

Recent studies demonstrate that the simultaneous implementation of tax planning and Good Corporate Governance (GCG) has a significant effect on enhancing a company's value in the market (Noviari & Suaryana, 2020). Companies that apply these practices effectively are more likely to increase their market valuation, signaling the importance of integrating strategic financial planning with robust governance structures. In addition, research indicates that higher profitability is closely associated with an increase in company value (Monoarfa et al., 2020). This underscores the role of sound governance and strategic planning as pivotal elements in boosting financial performance. For firms seeking long-term growth and sustainability, merely discussing GCG principles is insufficient; companies must actively implement these practices to realize their potential benefits. Good corporate governance is increasingly recognized as a vital mechanism that drives company growth and supports survival in competitive and dynamic business environments.

The adoption of corporate governance practices is no longer optional but has become a necessity for companies operating in today's complex and competitive markets. Firms that neglect sound governance structures may face difficulties attracting investors, incur higher capital costs, and struggle to sustain growth over time. Effective corporate governance serves as the foundation for organizational survival and expansion, particularly under the pressures of globalization and heightened market competition. This perspective is grounded in the recognition that governance bodies, including the Board of Directors and the Board of Commissioners, play critical roles in ensuring corporate accountability, strategic alignment, and operational success.

The Board of Directors holds a central position in guiding company policies and strategies, both in the short term and over the long term. Their responsibilities include ensuring that strategies align with overarching company objectives while facilitating the achievement of these goals. This highlights the importance of competent leadership in steering a company toward sustainable performance and long-term growth, ensuring that immediate operational targets and future strategic objectives are effectively met (Kurucz et al., 2017). Directors must navigate complex business decisions and volatile market conditions, balancing risk management with growth opportunities. Meanwhile, the Board of Commissioners functions as a supervisory and advisory body, holding the Board of Directors accountable for its decisions and offering guidance to enhance strategic planning and mitigate potential risks. The interplay between these boards establishes a balanced governance framework that supports corporate success and long-term value creation.

The significance of good corporate governance in improving firm performance and generating sustainable value for stakeholders is widely supported by research. Practices such as a well-composed Board of Directors, independent and competent audit committees, and transparent disclosure mechanisms help reduce agency conflicts and minimize information asymmetry (Raimo et al., 2021). By aligning the interests of managers and shareholders, GCG ensures that managerial decisions are made with the broader objectives of the company in mind. Well-governed companies demonstrate greater accountability and clarity in decision-making processes, which in turn enhances financial performance and fosters stakeholder trust. Moreover, good governance practices reduce conflicts of interest, strengthen investor confidence, and enhance the company's reputation, all of which contribute to a more favorable position in the competitive market.

In applying good corporate governance, companies must also consider factors such as organizational size, which reflects operational maturity and capacity for growth. Larger firms may have more complex governance requirements, necessitating more robust oversight mechanisms. The effectiveness of audit committees is particularly important, as these bodies are tasked with ensuring financial statements are accurate, compliant, and transparent. In today's globalized economy, investors and regulators increasingly demand reliable reporting and evidence of governance effectiveness. Audit committees play a crucial role in maintaining transparency, mitigating fraud risks, and ensuring that managerial actions serve the interests of stakeholders.

As competition intensifies globally, companies must extend their focus beyond profitability. Modern corporate governance frameworks increasingly emphasize social responsibility, ethical business conduct, and sustainability in operational practices. Firms are expected to consider the broader societal and environmental impacts of their operations, integrating corporate social responsibility (CSR) into their strategic agenda (Fiandrino et al., 2019). Transparency, ethical conduct, and sustainability are not only ethical imperatives but also strategic tools to strengthen corporate reputation, attract socially responsible investors, and secure long-term growth. Companies that adopt these principles gain competitive advantages, enhance stakeholder trust, and differentiate themselves in markets where investors and consumers increasingly value ethical and sustainable practices.

The implementation of GCG enhances firm performance by creating an environment of accountability, reducing managerial discretion that could lead to agency problems, and promoting transparent communication of strategic and financial decisions. The Board of Directors' role in executing strategies aligned with company goals, alongside the Board of Commissioners' supervisory function, ensures that corporate governance frameworks are effective and responsive to both internal and external demands. Ethical conduct, transparency in decision-making, and responsible business practices are essential to sustaining stakeholder confidence and long-term firm value. Companies that embrace these practices are better positioned to achieve operational efficiency, maintain investor trust, and navigate challenges in complex, competitive markets.

In conclusion, the implementation of good corporate governance is critical for enhancing company performance and sustaining long-term value. Effective governance promotes transparency, aligns managerial actions with shareholder interests, mitigates agency conflicts, and fosters a culture of accountability across the organization. The synergy between the Board of Directors and the Board of Commissioners is crucial in ensuring strategic alignment, risk management, and compliance with regulations. Additionally, companies must integrate ethical, social, and environmental considerations into their governance frameworks to meet the expectations of stakeholders in a globalized economy. By combining financial prudence with ethical and sustainable practices, companies can strengthen their market position, build trust with stakeholders, and secure long-term growth and competitiveness. The relationship between GCG and firm value demonstrates that responsible governance is not only a regulatory requirement but also a strategic advantage that drives company success in both financial and social dimensions.

5. Conclusion

The conclusion of this study highlights that implementing Good Corporate Governance (GCG) significantly enhances company performance and contributes to long-term firm value. Effective GCG practices help minimize agency costs, increase transparency, and foster stronger relationships between management and shareholders, thereby improving overall organizational performance. The proactive involvement of both the Board of Directors and the Board of Commissioners is essential for formulating company policies, guiding strategic decisions, and ensuring thorough oversight of operations. By adhering to sound GCG principles, companies can strengthen their competitiveness in an increasingly challenging global market. Furthermore, this research underscores the importance of adopting governance practices that go beyond short-term profitability to encompass social and environmental responsibilities. Ensuring sustainable operations through transparent reporting, accountability, and responsible management not only enhances investor confidence but also builds trust among stakeholders. In this way, GCG serves as a comprehensive framework that not only boosts financial performance but also generates long-term value, benefiting shareholders, employees, society, and the surrounding environment. The study confirms that good corporate governance is integral to sustainable growth, resilience, and stakeholder trust.

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