The relationship between the cost leadership strategy and product differentiation strategy with effective tax rate for long-term cash

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Abstract.

Business strategy show the company competition in the company choice. The company can be used set policies and activities which could achieve to one sustainable competitive advantage in the market of choice for the strengthen business strategy. The company was formed strategy for the willingness of companies for the risk and uncertainty. The company strategy can affect the level of tax avoidance. Thus, in this paper checked the relationship between the business strategy and level of tax avoidance. In this study were collected information 169 firm during years 2010- 2014 and the research hypotheses were tested at the level of 5%. The results show that there is a negative correlation between leadership strategy and effective tax rate for long term cash. And, there is a direct correlation between product differentiation strategy and effective tax rate for long term cash.

Key words: cost leadership strategy, product differentiation strategy, effective tax rate for long-term cash.

1. Introduction

The companies balance profits and Final costs due management of tax costs for signification own activities of tax avoidance. One of profits of tax avoidance Is increasing of pecuniary progresses. On the other hand of costs , and governmental punishment,for tax avoidance costs. Porter (1985) has expanded a frame that companies may choose a commercial strategy for increasing function of company. He has argued that the company should choose one of these cases: 1- reducing cost of a product in an industry (craft) that its called as cost management strategy .Or one particular product quality, physical or giving services it is called product distinguish strategy literary content it is seen why relation between financial crow and function of company is related to choose a Commercial strategy.

2. The importance and necessity of research.

Tax and catching it and avoiding from tax avoidance in companies which are written as a member of big financial payers,are important for government and especially for tax department. Companies can change the amount of tax with different politics .There are some elements which lead to tax avoidance or change the level of tax avoidance of companies .Checking these elements helps us to understand tax planning of companies, and it helps to tax department analyzes tax activities of companies and identifies the ways of tax avoidance .

This research can help to tax orgoni cation department by checking commercial strategy of companies and its influence tax avoidance by determination of companies strategies And then prevents the companies decrease their taxes,by suitable codification . more over it can help to research proceed which checkers balances in activities of fiscal avoidance .On the other band. Companies can uphold their commercial strategy with vindicative activities (such as fiscal planning), so they get an abiding competitive profit.

3. Theoretical principles of research.

3.1. The meaning of tax avoidance.

As for there are some different views about meaning of tax avoidance,frit we discuss a bout definition of tax avoidance for decreasing disorders in meanings. Tax avoidance is totally defined legal and clear decreasing in paying taxes.

This definition is adopted obtained from die ring and co-workers research (2008) and includes all transactions which influence on tax debts.

3.2. The measurement scales of tax avoidance.

The researchers has not enforced on a single scale for measurement of tax avoidance,because they believe every scale has own special limitation, but some of them better than the others. Totally, many of scales are used in literature if tax avoidance matter, and researchers should choose own measurement scales by noticing to the question and the goals of research. according to die ring and co-workers, in this research we use the scale of long-run cash ETR for measuring tax avoidance, so it is necessary to explain this scale.

3.3. Long-run cash ETR.

Using one annual rate for testing tax avoidance of company could lead to a false deduction from long-Run manner of companies. Hence long-run cash ETR is used witch equals division total taxes during 5 or 10 years on sum of tax profit in same term.(die ring and co-workers 2008).

4. The cost management strategy.

The goal of cost management strategy is the company should be a producer with little cost. The cost management strategy proves to be true by experiment, investment in facilities of vastly production, economizing, and careful supervision on total operating costs (by programs such as decreasing measures and control of quality .(porter 1985).

If the companies witch use cost management strategy have high performance with supervision of scrivener. They will be gained by using financial crow.supervision by scrivener limits the managers opportunistic manners by decreasing available resources for provisory costs. Hence, the duty of checking the debts is more important for the companies which attempt to high performance. Also, in cost management strategy. The company should control the basic costs and avoid increasing invitational marketing costs.(same resource).

5. The product distinguishing strategy.

This strategy needs development of goods or particular services with reliance on customers troth to the commercial mark (brand). A company can produce higher quality, better function, or particular property for justifying higher price. In product distinguish strategy, the companies like to fund for companies in creases. More over in product distinguish strategy, companies faces, unreliability It means that excessive emphasis on invention draws on companies face to risky activities. (Bigod back 1979,Jremice 2008).

Cost management strategy: It is obtained division of total sale on total capital.

The product distinguish strategy: It is obtained division of development and research saving and voluntary saving on total sale.

6. Research methodology.

6.1. Research method.

Thence this research checks relation between Function of companies and tax avoidance as for their strategies, the method of research is correlation and correlation measure between absolute variable, and any bound variable is deter minded by coefficient of correlation test and then by noticing meaningful level. It is characterized by using of probability value (p-value) that is there any relationship between absolute and bound variables not. And for hypothesis test companies which recorded in bourse organization site. and Novin Rahavard software.

6.2. The theories of research.

The companies balance their profits and Final costs for determination of activities measure of tax avoidance. But this balance some deal is related to the goals of the companies, for example : the companies which like to decrease their costs profit more than the risky companies in increasing economy of taxation .

But the cost of development and implementation of taxation strategies is more than profit of economy of taxation.

First theory: there is a meaningful relation between cost management strategy and long-run cash ETR

Second theory: there is a meaningful relation between product distinguish strategy and long-run cash ETR.

6.3. Test course, society and statistical sample model.

Statistical sample model of this research is formed consist of all companies which win in bond bourse of Tehran, during 2010-2013. Thence, the information of t-1 research samples, the information of 1388 is collected, too. In this research we will study the companies which have following qualifications:

For comparing the information, the Financial year should terminate on Esfand 29 th.

During research, they don't change their Fiscal year.

During research, transactions of company share shouldn't be stopped more than there months in Tehran bond bourse.

Necessary data's for performance of research should be available.

It isn't a member of Fiscal broker companies, such as (banks, investment and……)

During research, its profit should be reported.

By noticing above qualifications and limitations we chose 76 companies from winner companies in Tehran bond bourse.

6.4. The research variables

Bound variable

As it is said bound variable is tax avoidance in this research. The valuated research s to tax avoidance give different scales for measuring tax avoidance. As a scale (standard) we use 5 year old long-run cash ETR for Fiscal activities of company (Diering and co-workers 2008)

Long-run cash ETR is computed by following formula:

Long-run cash ETRI,T=$x = \dfrac{\text{PAID TAX}}{\text{TAX PROFIT}}$

in above formula long-run cash ETR of I company could be computed in T year .

Absolute free variable

Cost management strategy : It is obtained division of total sale on total sale on total capital.

Product distinguish strategy: It is obtained division of development and research store on total sale.

6.5. Test of theories:

First theory test:

First theory: thieve is meaningful rotation between cost management strategy and long-Run cash ETR.

In this theory we test cost management strategy and long-Run cash ETR by GRSION AND CORRELATION FACTOR METHOD.

Before doing this test, we tested the data's if they are normal or not . by (Q-Q) chart, we recognize outlives and delete them. And use logarithm conversion for making normal the data's. So the number of data's diminish from 220 to 169 for all companies in First theory test. And after doing necessary calculation, relation between cost management strategy as an absolute variable and long-Run cash ETR as a bound variable is evaluated (tested)

Second theory test

Second theory: there are meaningful relation between product distinguish strategy and Long-Run cash ETR.

Before doing this test, we tested the data's if they are normal or not . by (Q-Q) chart, we recognize outlives and delete them. And use logarithm conversion for making normal the data's. So the number of data's diminish from 220 to 169 for all companies in First theory test. And after doing necessary calculation, relation between cost management strategy as an absolute variable and long-Run cash ETR as a bound variable is evaluated (tested)

7. Conclusion.

The relationship between business strategy and the level of tax avoidance in companies listed on the Tehran Stock Exchange has reviewed and analyzed. On this basis, taking into account the 169 companies in the period 1389 to 1393 were analyzed hypotheses. Bread hypothesis test results that the factors affecting tax avoidance include: business strategy, profitability ratios, debt ratio and the ratio of fixed assets. Based on the results of the first hypothesis, the negative relationship between the company and the effective tax rate cash cost leadership strategy Myatt there long.

In other words, companies that are looking to minimize costs, compared to companies that are looking for strategic growth opportunities and innovation in production, are lower than tax avoidance.

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