Board Characteristics, Audit Quality and CEO Narcissism on Tax Avoidance: Evidence from Consumer Staples in Indonesia and Australia

Review of Integrative Business & Economics Research

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ABSTRACT

Taxpayers engage in numerous tax-avoidance strategies because tax is a burden that reduces incomes. Accordingly, this research aims to investigate empirically the effect of board independence, board gender diversity, board size, audit quality and chief executive officer (CEO) narcissism on tax avoidance. The population used in this research is consumer staples companies listed on the Indonesia Stock Exchange and Australian Stock Exchange from 2018 to 2020. Purposive sampling is used, which resulted in 126 observations. Using multiple linear regression, the results of this study demonstrate that CEO narcissism has a negative and significant effect on tax avoidance, whereas board independence, board gender diversity, board size and audit quality do not have any significant effects on tax avoidance.

Keywords: Tax avoidance; board characteristics; audit quality; CEO narcissism.

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1. INTRODUCTION

Taxpayers can be corporates or individuals, and their tax payments can help and finance the government, develop the country, and support the people's welfare. At the beginning of 2020, Covid-19 attacked the world, including Indonesia, which resulted in many negative impacts. Various types of tax assistance were provided by the government to help the economy and community activities, such as providing tax incentives, internet quotas for students and scholars and state economic recovery budgeting to support Micro, Small, Medium Enterprises (MSMEs).

Furthermore, many companies became bankrupt during the pandemic, causing widespread unemployment. Economic problems overwhelmed countries all over the world, forcing them to create and find creative solutions. Particularly in Indonesia, the state tax revenue was hampered because of the Covid-19 outbreak.

Tax avoidance is one of the reasons why state revenue is low. This practice can be done in two ways: legally and illegally. Pohan (2018) explains that tax avoidance is an action to minimise tax expense by exploiting loopholes in tax regulations. It is certainly safer than tax evasion, which is an action to manipulate taxations illegally. Many

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phenomena emerged in Indonesia regarding the practice of tax avoidance. One of them was from a palm oil company. Tax revenue from the palm oil sector is still not optimal due to a lack of data and compliance. Many illegal tax-busting oil palm plantations operate within forest areas. From 2011 to 2018, the average tax revenue from this sector was only around IDR 17 trillion, and in the last 10 years, this average has tended to decline. The highest figure was reached in 2015 for IDR 21.87 trillion. This situation contrasts with the increasing amount of palm oil production and the yearly expansion of oil palm plantations in Indonesia. From a total area of 16.6 million hectares, that means potential land and building tax revenue from oil palm plantations would reach IDR 3.98–4.78 trillion. This figure is more than three times the average PBB (property taxes) revenue in the last five years, which was only IDR 1.15 trillion (www.betahida.it, 2021).

Australia also does not support the practice of tax avoidance. It has several strategies to suppress tax avoidance, including establishing the Multinational Anti-Avoidance Law to combat permanent establishment avoidance and imposing a Diverted Profit Tax to cut transfer schemes. This strategy is incorporated in the income tax law, so when a multinational company commits tax avoidance in Australia, it must repay the income tax owed plus interest and is fined up to 100 per cent of the tax amount (Ardhiansyah and Nurhidayati, 2019). The phenomenon of tax avoidance in Australia can also be observed from the existence of 700 large companies that did not pay taxes. Scott Morrison, Minister for the State Treasury, said that corporate tax avoidance in Australia reaches approximately $2.5 billion per year, and so he is calling on the companies to restructure their business activities. In addition, the Guardian Australia, a world's leading media organisation, revealed that more than 168 companies that are suspected of having profits exceeding $9.85 billion have not paid taxes since 2013. Those companies that do not pay taxes include property developer Lendlease and Australian multinationals, such as oil and gas giant Chevron and German engineering and technology group Bosch.

Conducting this research is significant because tax avoidance can reduce a country's revenues, making it a huge concern for the government. However, companies continue to allow this practice because it is a part of tax planning that does not violate tax regulations. Previous studies have already conducted similar research. Gunawan *et al.* (2021), Tarmidi *et al.* (2020), Gracelia and Tjaraka (2020), Jarboui *et al.* (2020), Alkurdi and Mardini (2020), Suripto (2021), Araújo *et al.* (2021) and García-Meca *et al.* (2021) proved that there were significant effects among the independent variables used in this present research on tax avoidance. Their finding was in contrast with that of Lismiyati and Herliansyah (2021), Sugiono and Anggraeny (2022) and Monika and Noviari (2021), who stated that there were no significant effects among independent variables on tax avoidance. Thus, this topic is interesting to re-examine in order to fill in the research gaps due to the inconsistency of previous results. This research is also different from the previous ones because it focuses on the usage of samples from consumer goods companies in Indonesia and Australia during the 2018–2020 period. These companies are in the industry that contribute significant revenues to the Indonesian and Australian governments. This study attempts to find out whether consumer staples companies engage in tax avoidance in Indonesia and Australia.

Based on the phenomena and literature reviews discussed above, this research aims to examine and evaluate the effect of board independence, board gender diversity, board size, audit quality and chief executive officer (CEO) narcissism on tax avoidance. Studies that discuss the factors affecting tax avoidance in Indonesia and Australia are few and limited, and it is expected that the results of the current research can open and update the previous research, evolve the theoretical framework and give the potential solutions to the governments, companies and stakeholders.

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2. THEORETICAL FRAMEWORK

2.1 Agency Theory

Agency theory explains the contractual relationship between the members of a company and states that agents will behave selfishly such that it can cause conflicts with the principals. The existence of different interests between agents and principals creates agency problems, and so more effort must be made to overcome these problems through the effectiveness of corporate governance in supervising the agent's behaviour and creating a governance structure in which contracts are based on the outcome of the agent's behaviour (Ghozali, 2020). This theory has relevance with tax avoidance in that the management as an agent will collide with the tax authority (i.e. the principal) regarding the tax expense borne by the company. The management of the company will make many efforts to minimise their tax expenses and maximise the profits to satisfy their shareholders, whereas the tax authority wants the company to pay the maximum tax payments. The reason why taxpayers practice tax avoidance is to retain the resources within the company and thus increase its value (Wang *et al.*, 2020).

2.2 The Effect of Board Independence on Tax Avoidance

There are two classifications of board independence; non-independent commissioners and independent commissioners (Suhardjanto *et al.*, 2018). Board independence consists of commissioners who do not have any relationship with the company's finance, management, ownership, members of the board of commissioners, board of directors and controlling shareholders (Puspaningsih and Ristya, 2022). Board independence is considered to have a broader supervision and monitoring of management that concerns the internal affairs of a company. The purpose of their presence in the company is to contribute efficiently to the final results of a company's financial statements and make sure that these are free from fraud or errors. Board independence can also act as a mediator in disputes between internal managers of the company, oversee the policies to be taken by management and provide them guidance. It is expected that board independence will be able to suppress the opportunistic attitude of the management and supervise it in making decisions for the company. Companies with more members of board independence are expected to increase the supervision, so that the management will be more stringent and careful in making decisions related to minimising tax avoidance practices. Previous studies conducted by Dewi and Oktaviani (2021), Tania and Mukhlasin (2020) and Pratomo and Rana (2021) showed that board independence has a significant effect on tax avoidance. Thus, this research proposes the following hypothesis.
H_1: Board independence has a significant effect on tax avoidance.

2.3 The Effect of Board Gender Diversity on Tax Avoidance

Gender diversity in the board of commissioners can increase the ability of management to solve business matters, including tax avoidance. Female commissioners are perceived to be capable of mitigating the opportunistic behaviour from management. They play an active role in monitoring the activities of the company and tend to ensure the best outcomes for the company, all with the aim of enhancing its performance to satisfy the shareholders or external parties. They also give their best to create good corporate governance. Gracelia and Tjaraka (2020), Anggraeni and Kurnianto (2020) and Jarboui *et al.* (2020) concluded that board gender diversity has a significant effect on tax avoidance. This is because female commissioners have a significant influence on companies to reduce the action of tax avoidance. Furthermore, they are perceived as more

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conservative, ethical, rational, transparent and risk-averse to practices that can harm the company. This perception influences the directors and other members of the board of commissioners to make wise and obedient decisions in calculating, paying and reporting the company's taxes. Anggraeni and Kurnianto (2020) also said that companies would be more successful if the companies are led by female commissioners than by male commissioners. Therefore, this research proposes the following hypothesis.
H_2: Board gender diversity has a significant effect on tax avoidance.

2.4 The Effect of Board Size on Tax Avoidance

Indonesia adopts a two-tier system or two boards in good corporate governance to avoid the possibility of a conflict of interest in the company's supervisory board. This system separates the responsibilities, with the board of directors having an obligation to prepare guidelines, while the board of commissioners have an obligation to provide advice and supervise (Rustam and Pratama, 2023). According to agency theory, a small board size will show high performance and provide a guarantee of supervision. On the other hand, a large of board size is associated with poor performance. Mala and Ardiyanto (2021) also said that a small board size could guarantee good monitoring or supervision such that the practice of tax avoidance can be minimised. However, a large board of size can generate the practice of aggressive tax avoidance. Previous research conducted by Alkurdi and Mardini (2020) stated that board size has an effect on tax avoidance. Therefore, this research puts forward the below hypothesis.
H_3: Board size has a significant effect on tax avoidance.

2.5 The Effect of Audit Quality on Tax Avoidance

The audit quality performed by auditors is high when they have good qualities in accounting. Their duties are to find irregularities or practices that violate the rules in force in the accounting system or financial statements and ensure that financial statements are presented based on the accounting standards. Auditors convey their findings in the audited financial statements through the audit opinion that the accountant declares publicly. Thus, it is expected that users or investors will trust the information disclosed in the financial statements audited by qualified and professional auditors. Based on agency theory, the principal (investor) gives the agent (manager) the authority to make the best decisions for the principal. One of the company's responsibilities as an agent is to present the financial statements. Agents also have rights to select the qualified auditors in order to reduce information asymmetry as well as generate good and reliable financial statements in accordance with financial accounting and auditing standards. Dabari and Liuraman (2022), Tresnawati and Indriani (2021) and Tarmidi *et al.* (2020) concluded that audit quality has a significant effect on tax avoidance. They said that tax avoidance will decrease when audit quality increases because the company is afraid of the audit opinion issued by the auditors related to the financial statements, taxations and management activities of the company. Therefore, this research offers the following hypothesis.
H_4: Audit quality has a significant effect on tax avoidance.

2.6 The Effect of CEO Narcissism on Tax Avoidance

Narcissism is a behaviour that is characterised by selfishness, overconfidence and self-conceit. Attractiveness, fame and self-aggrandisement are also proven to have a positive correlation with narcissism (Al-Shammari *et al.*, 2019). Someone who has high narcissism will certainly have an impact on low morality and will always pursue what they believe in through aggressive action (Hariani and Waluyo, 2019). The CEO is an

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individual who is responsible for directing, supervising and developing the business so that the company's goals can be achieved. They must have a leadership style and confidence in making every decision. One of the characteristics possessed by the CEO is narcissism. The encouragement that drives CEOs to be narcissistic is from their vital role in the company, which entails that their opinions and views must come first and be prioritised. As CEOs are focused on the popularity, this causes them to take high risks by practising tax avoidance in order to keep their tax expense as low as possible. By paying a low tax expense, the companies will use their funds more optimally for things that are more profitable for the company (Sugiono and Anggraeny, 2022). This view is certainly in line with the agency theory, where the companies as agents will have problems with the tax authorities as principals. The tax authority wants high tax payments from companies, but the companies do not. The companies will make every effort to improve their performance, expand the business and pursue profitability in order to attract investors and increase their shareholder's wealth. Previous studies by García-Meca *et al.* (2021), Hariani and Waluyo (2019) and Araújo *et al.* (2021) stated that CEO narcissism has a significant effect on tax avoidance. Therefore, this research forwards the following hypothesis.
H_5: CEO narcissism has a significant effect on tax avoidance.

According to the literature reviews, grand theory and framework thinking that were explained in previous paragraphs, the model of the conceptual framework in this research is drawn as follows:

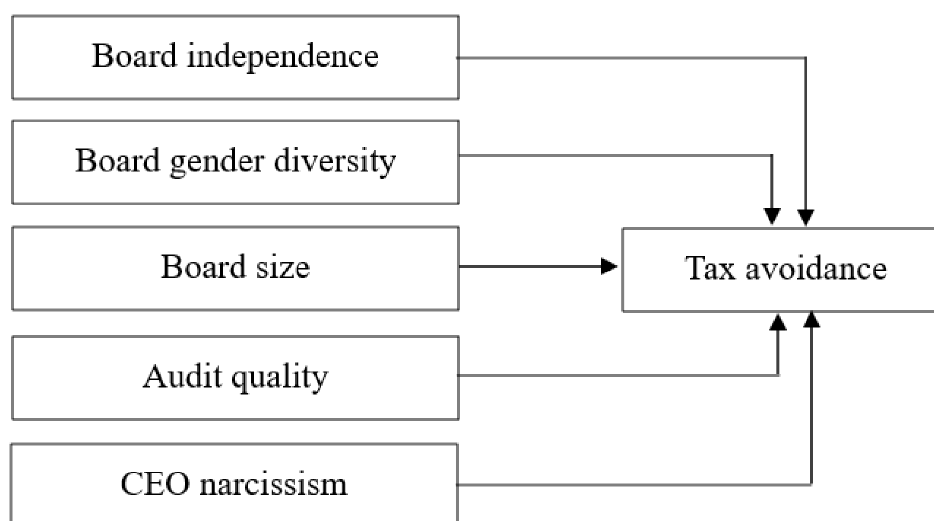

Figure 1. Conceptual Framework

3. RESEARCH METHODS

This research is classified as a causal research, which aims to identify the relationship of cause and effect and examine the effect of independent variables on the dependent variable. The independent variables in this research are board independence, board gender diversity, board size, audit quality and CEO narcissism, while the dependent variable is tax avoidance.

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This research used the populations of manufacturing industries from consumer staples industries that are listed in the Indonesia Stock Exchange (IDX) and Australian Stock Exchange (ASX) from 2018 to 2020. It employs purposive sampling technique to obtain the samples. Purposive sampling is a non-probability sampling technique with some criteria provided. In this study, those criteria are consumer staples industries listed in the IDX and ASX, annual reports and financial statements published consistently and consistent earned profits during the research years. From the purposive sampling technique, the appropriate numbers of samples are determined to be 87 samples from Indonesia and 39 samples from Australia, leading to a grand total of 126 samples.

Literature and documentation study are techniques to collect data. These are carried out by collecting and studying journals, articles, previous research, the Internet and many more. All the data collected are classified as secondary data with a quantitative approach. The information related to each variable used in this research is taken from the annual reports downloaded from the companies' websites. Moreover, multiple linear regression test is carried out to test the hypothesis with the help of E-views 10. Table 1 provides information about the formulations or measurements of the independent and dependent variables.

Table 1. Variable Operationalisations

Variables	Indicator	Scale	Reference
ETR	Tax expense divided by profit before tax.	Ratio	García-Meca *et al*. (2021)
BIND	The number of independent board of commissioners divided by the total number of commissioners.	Ratio	Tania and Mukhlasin (2020)
BGD	The number of female commissioners divided by the total number of commissioners.	Ratio	Jarboui *et al*. (2020)
BSIZE	Sum of the total number of the board of commissioners.	Ratio	Kalbuana *et al*. (2023)
AQ	'1' for companies audited by a big four firm (PwC, Ernst & Young, Deloitte, KPMG) and '0' for those audited by a non-big four firm.	Nominal	Brahmono and Purwaningsih (2022)
CEO	'1' if there is no photo of the CEO in annual reports, '2' if there is a photo of the CEO with one or more executives, '3' if the photo of the CEO is less than a half page and '4' if the photo of the CEO is more than a half page.	Ordinal	Al-Shammari *et al*. (2019)

Description: ETR = tax avoidance; BIND = board independence; BGD = board gender diversity; BSIZE= board size; AQ = audit quality; CEO = narcissism.

4. RESULTS

Table 2 gives details about the general results of descriptive statistics related to minimum, maximum, mean, standard deviation and total observations used. Tax avoidance, which is proxied by effective tax rate, shows that the 126 samples have an average of 26%. This result also tells that the higher the ratio of effective tax rate, the more compliant the company is in paying their tax obligation, and vice versa. In Indonesia, the average

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effective tax rate is 25%, meaning that 87 samples had paid their taxes more than 22%, based on Article 17 of the Income Tax Law. According to the Australian Taxation Office, the company tax rate was previously 27.5% from the 2017–2018 to 2019–2020 income years and 26% in the 2020–2021 income year (www.ato.gov.au, 2023). Therefore, it could be concluded that with the average ETR of 29% in Australia, 39 samples have paid their taxes obediently.

Table 2. Descriptive Statistics

Both Countries						
Variables	ETR	BIND	BGD	BSIZE	AQ	CEO
Minimum	0.16	0.25	0	2	0	1
Maximum	0.38	0.91	0.75	11	1	4
Mean	0.26	0.51	0.2	5.29	0.56	2.54
Std. Dev	0.04	0.17	0.19	2.17	0.5	0.84
Obs.	126	126	126	126	126	126
Indonesia						
Variables	ETR	BIND	BGD	BSIZE	AQ	CEO
Minimum	0.16	0.25	0	2	0	1
Maximum	0.33	0.88	0.75	9	1	4
Mean	0.25	0.45	0.19	4.44	0.43	2.89
Std. Dev	0.03	0.13	0.21	1.74	0.49	0.16
Obs.	87	87	87	87	87	87
Australia						
Variables	ETR	BIND	BGD	BSIZE	AQ	CEO
Minimum	0.2	0.29	0	3	0	1
Maximum	0.38	0.91	0.4	11	1	2
Mean	0.29	0.65	0.23	7.18	0.85	1.77
Std. Dev	0.03	0.15	0.11	1.77	0.36	0.42
Obs.	39	39	39	39	39	39

Description: ETR = tax avoidance; BIND = board independence; BGD = board gender diversity; BSIZE= board size; AQ = audit quality; CEO = narcissism.

Board independence is known to have an average rate of 51%, meaning that the number of board independence in the company is more than half the total number of existing commissioners. According to the Financial Services Authority (OJK) in Indonesia, a company needs to have a minimum composition of 30% board independence from the overall commissioners. The result shows that board independence in Indonesia is 0.45, meaning that 87 samples have followed the regulation. The higher the number of board independence, the more it is expected that they can provide the effective oversight or monitoring of the company's activities, as they have an independent role and are not affiliated with the management in the company.

From the 126 samples above, the average rate of board gender diversity is 20%. Female commissioners are perceived as having a high orientation and sense of concern for the company in order to carry out business activities properly. The higher percentage of board gender diversity means that the number of commissioners in the company is dominated by women. In addition, there were 46 samples in Indonesia that had female commissioners while 41 samples had none. In Australia, there were 35 samples that had female commissioners while 4 samples had none. This finding indicates that the number of female commissioners in Indonesia is still low.

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Board size has an average of 5.29%, meaning that the majority of the total board size in the sample used in this research is five people. Companies with a big board size are perceived as bad and can lead to tax avoidance, while it is different for companies that have a small number of board size. This is because a company with a small board size focuses on its performance and guarantees good oversight (Mala and Ardiyanto, 2021).

Audit quality is a dummy variable in this research. From the 126 samples above, there were 70 companies audited by a big four public accounting firm, while the 56 other samples were audited by non-big four public accounting firms. The companies audited by big four public accounting firms are considered to have very adequate quality financial statements that are correct, free from misstatements and in accordance with accounting standards. The higher the audit quality of the company's financial statements, the smaller the tax avoidance activity.

Table 3. Model Selection

Test	Statistics	ρ-value	Decision
Chow	112.53	0.00	FEM
Hausman	3.05	0.69	REM
Lagrange Multiplier	16.14	0.00	REM

CEO is proxied by a ranking scale of 1–4. In Indonesia, there were 42 samples where the photo of the CEO was less than a half page, 26 samples where the CEO was with one or more executives, 18 samples where the photo of the CEO was more than a half page and 1 sample without a photo at all. Meanwhile, in Australia, there were 30 samples that had a photo of the CEO with one or more executives and 9 samples without a photo of the CEO in annual reports.

Table 4. Regression Results

Variables	ETR (*Common Effect*)	ETR (*Fixed Effect*)	ETR (*Random Effect*)
(Constant)	0.266	0.322	0.265
	(0.000)*	**(0.000)***	**(0.000)***
BIND	-0.010	-0.028	-0.008
	(0.663)	(0.546)	(0.769)
BGD	0.0004	-0.020	-0.004
	(0.979)	(0.555)	(0.821)
BSIZE	0.004	0.0007	0.004
	(0.048)*	(0.868)	(0.091)
AQ	0.017	-0.028	0.015
	(0.035)*	(0.423)	(0.125)
CEO	-0.011	-0.011	-0.011
	(0.006)*	(0.163)	**(0.018)***
Adj. R^2	0.240	0.515	0.136
F-test	8.874	3.763	4.928
	(0.000)*	**(0.000)***	**(0.000)***
Obs.	126	126	126

*Significant level at 5%
Description: ETR = tax avoidance; BIND = board independence; BGD = board gender diversity; BSIZE= board size; AQ = audit quality; CEO = narcissism.

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In addition, the results of descriptive statistics conclude that the average of 126 samples is greater than the standard deviation. This indicates that all data are well distributed or homogeneous.

Table 3 gives information about the feasible model selection among common effect model (CEM), fixed effect model (FEM) and random effect model (REM). The first test of model selection is Chow. This test is analysing the right model between CEM and FEM. The result of Table 3 shows the ρ-value of the Chow test is 0.00 lower than 0.05, meaning that FEM is chosen for further testing.

Hausman is a test to choose the feasible model between FEM and REM. Since the ρ-value of Hausman test is 0.69 greater than 0.05, REM is chosen.

Lagrange multiplier is a test to choose the feasible model between CEM and REM. Since the ρ-value of the Lagrange Multiplier is 0.00 lower than 0.05, REM is selected for the next test to see whether every hypothesis in this research is supported or not.

From Table 4 (REM), the value of the adjusted R-square of 0.136, which means the ability of the independent variables (board independence, board gender diversity, board size, audit quality and CEO narcissism) to influence tax avoidance is 13.6%, whereas the remaining 86.4% is explained by other factors that are not included in this research. The F-test shows a statistic of 4.928 with significance that is 0.000 lower than 5%. Therefore, the regression model in this research is fit and able to predict tax avoidance.

5. DISCUSSIONS

5.1 The Effect of Board Independence on Tax Avoidance

The aim of this test is to determine whether board independence significantly affects tax avoidance. Jensen and Meckling (1976) explained that monitoring can suppress managers' tendency to maximise their own advantages and harm the investors. However, the result of this research based on REM (Table 4) does not find any effect between board independence and tax avoidance. This means that the first hypothesis in this research is not supported. Board independence is proven to not to be a factor that can reduce tax avoidance. The higher rate of board independence in the company cannot influence tax avoidance. Board independence is only more focused on monitoring management policies regarding profits or company performance (Tarmidi *et al*., 2020). This result also reveals that the board independence cannot show their independency, or they lack in monitoring the company's activities to carry out tax avoidance (Oktavia *et al*., 2020). The insignificant value of board independence can likewise be triggered because board independence in the company only exists to fulfil the regulations from the OJK and a lack of coordination between other commissioners and directors, making the access of board independence to assess, monitor and evaluate the business process is hampered. Previous studies conducted by Lismiyati and Herliansyah (2021) and Tarmidi *et al*. (2020) supported the result of the present research that board independence has no effect on tax avoidance.

5.2 The Effect of Board Gender Diversity on Tax Avoidance

REM (Table 4) shows that the significant value of board gender diversity is 0.821 > 0.05. This means that board gender does not affect tax avoidance significantly, that is, a higher number of female commissioners in a company will not affect tax avoidance. The roles of female commissioners in the company cannot show their capability of carrying out optimal oversight of the company actions in suppressing tax avoidance. Commissioners, regardless of gender, have the same responsibilities and duties and behave professionally, so there is no guarantee that female commissioners will be more competent or provide

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quality responsibilities and work results. The result of this research is in line with those by Sugiono and Anggraeny (2022) and Rahman (2021), both of whom concluded that there is no significant effect between board gender diversity and tax avoidance. This is because gender is not the main factor for tax avoidance; instead, the encouragement of the companies to engage in tax avoidance is caused by a system of rewards and incentives (Sugiono and Anggraeny, 2022). Furthermore, the insignificant result between board gender diversity and tax avoidance was because there are so few female commissioners in the company that they cannot afford to contribute votes in company's decision making. However, the result of this research is inversely proportional to those by Gracelia and Tjaraka (2020) and Jarboui *et al.* (2020), both of whom stated that there was a negative and significant effect between board gender diversity and tax avoidance. They concluded that gender role on the board of commissioners would reduce tax avoidance activities because the high number of female commissioners in the company is perceived as having high morality and being careful in making decisions, especially those related to the corporate's taxation, so as not to be subject to sanctions that could harm the company.

5.3 The Effect of Board Size on Tax Avoidance

Based on the result of REM in Table 4, board size has no effect on tax avoidance. A larger board size is less likely to have effective control of companies to influence management not to engage in tax avoidance. Owing to the role of board size in carrying out the oversight function of a company's operations by the management, the number of members of the board size should be able to provide oversight of the results of the company's operational processes. Furthermore, a big board size does not guarantee that they can improve efficient oversight in terms of tax avoidance practices, because that is part of a company's tax planning, which is fully controlled by the management (Rustam and Pratama, 2023). Accordingly, a high or low number of board size of a company will not affect the company's efforts to carry out tax avoidance. The result of this research is in line with those of Rustam and Pratama (2023) and Mala and Ardiyanto (2021), both of whom stated that board size has no effect on tax avoidance.

5.4 The Effect of Audit Quality on Tax Avoidance

REM in Table 4 shows that audit quality does not affect tax avoidance significantly (0.125 > 0.05) because auditors who are from big four and non-big four accounting firms have the same guidelines and experts in conducting audit and have the ability to detect intentional or unintentional fraudulent behaviour in the company's financial reports. Carrying out an audit that complies with the regulations and standards will not affect whether or not the company engages in tax avoidance (Nurhidayah *et al.*, 2021). Auditors are asked to follow their ethics to maintain their integrity. Nurhidayah *et al.* (2021), Monika & Noviari (2021) and Hadaming and Daito (2023) found the same result that audit quality has no effect on tax avoidance.

5.5 The Effect of CEO Narcissism on Tax Avoidance

According to Table 4 (REM), CEO narcissism has a negative and significant effect on tax avoidance. Specifically, the higher the CEO narcissism, the lower the tax rate of avoidance. The result of this research has proven that CEOs who have high levels of narcissism are motivated to discourage companies from practising tax avoidance. This means that when the perception or image of the company is good, the CEOs receive praise from external parties for being able to manage the company very well. In addition, the result of this research does not confirm the agency theory, which states that a discrepancy exists between companies as agents and tax authorities as principals. Kalbuana *et al.*

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(2023) supported the finding of this research that CEO narcissism negatively influences tax avoidance. This indicates that CEO narcissism is not a reflection of the company's intention to avoid taxes. In this case, narcissist CEO will act obediently in terms of corporate tax matters. This result is applicable to the managerial practice that a company with a high CEO's narcissism should pay attention to the decision that the CEO takes and make sure that every decision does not violate the regulations. This conclusion also suggests that narcissistic chief executive officers will engage in efficient tax planning, which will result in the lowest possible tax liability for the company.

6. CONCLUSION

Drawing from the data analysis and discussions, this research concludes that board independence, board gender diversity, board size and audit quality are not the motives that influence tax avoidance practices. This can be seen from the insignificant probability values from the multiple linear regression test. The higher board characteristics and audit quality will not affect the companies' practice of tax avoidance. However, CEO narcissism in this research is proven to have a negative and significant effect on tax avoidance. This means that CEO narcissism in the company influences the company to become compliant in paying its tax expenses; thus, the presence of CEO narcissism can minimise the practice of tax avoidance. The result of CEO narcissism in affecting tax avoidance in a negative coefficient also concludes that it is not in accordance with the agency theory, which states that there is collision between an agent and a principal.

Future researchers are suggested to use other independent variables that may affect tax avoidance, use different proxies and sector of a company's samples and extend the year of research samples. They can use whole manufacturing companies to generate the reflections of differences in their research's results. The government is also suggested to be stricter in strengthening the tax regulations and increasing its supervisions so that state tax revenues can be more optimal. Companies should always be careful in preparing their taxations and making sure that the tax planning they make is in accordance with the tax laws and regulations.

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