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DO NARCISSISTIC CEOS PROMOTE TAX AVOIDANCE?: THE ROLE OF BOARD GENDER DIVERSITY IN INDONESIA

Abstract:

This paper examines factors related to tax avoidance in Indonesia. Previous studies indicate that the tax ratio in Indonesia is lower than that of ASEAN countries and the global average. Understanding these factors is crucial. In investigating the role of a Chief Executive Officer's (CEO) narcissism in tax avoidance, we introduce gender diversity as a moderating variable. Additionally, the study incorporates corporate profitability as a key factor. Our research focuses on non-financial sector companies listed on the Indonesia Stock Exchange for 2019-2021. Our examinations show that corporate profitability positively affects tax avoidance, with firms exhibiting higher net income tending to engage in tax avoidance. We support our hypothesis that narcissistic CEOs are inclined to reduce tax payments. Furthermore, the impact of narcissism on tax avoidance diminishes for firms with greater board gender diversity. Our findings contribute to tax studies in emerging countries by revealing that board gender diversity mitigates the impact of narcissistic CEOs on tax avoidance.

Keywords:

corporate profitability, CEO narcissism, board gender diversity, tax avoidance

JEL Classification: M41, M19, G02

INTRODUCTION

Government revenue is crucial for achieving national objectives. In Indonesia, this is articulated in the State Budget (Anggaran Pendapatan dan Belanja Negara or APBN). Taxes contribute the most to state revenue, accounting for approximately 70% of the total annual income (BPS, 2023). Consequently, the government aims to optimize tax collection. However, taxes also play a role in diminishing company profits. Consequently, companies often view taxes as a burden that necessitates strategic minimization. Regarding tax revenue, corporate income tax (PPh) is a major contributor, ranking second in total tax revenue in 2020, as reported by the Organisation for Economic Co-operation and Development (OECD) (Santika, 2023). Therefore, the company's efforts to minimize its tax burden are an issue that must receive major attention because it causes state revenue to be reduced than it should be obtained.

Based on data from the Ministry of Finance, it shows that the realization of tax revenue before 2021 is always below the expected revenue target. Tax revenue for 2019 and 2020 only reached 84% and 89% of the expected total, respectively. Conversely, in 2021, tax revenue was able to slightly exceed the expected tax revenue target. However, the positive signal for achieving this target was not accompanied by an increase in the tax ratio as a measure of comparison of the amount of tax revenue to Gross Domestic Product (GDP). This low tax ratio indicates that the increase in tax revenue is smaller than the increase in GDP. Since 2015, the value of the tax ratio has decreased considerably which can only reach around 8.3%-10.3%. This value is quite far when compared to previous years which reached 10.8%-11.4% (The World Bank, 2023). Furthermore, the value of the tax ratio is also fairly low when compared to the threshold of a good tax ratio of fifteen percent (Primadhyta, 2018). Indonesia's tax ratio is also quite low in the ASEAN Region and is still below the world average of 13.5% (Santika, 2023). This low tax ratio is a signal that state revenue from the tax sector is still not optimal.

Companies may resort to tax avoidance as a strategy to minimize their tax burden, which is a factor that can reduce profits. Tax avoidance is allegedly one of the causes for the low achievement of tax revenue targets and tax ratios in Indonesia. Various factors are believed to influence companies to engage in tax avoidance efforts, one of which is company profitability. This is because profitability is often an indicator used by investors in making investment decisions (Alkurdi, 2022). Hence, profitability plays a crucial role in shaping a company's economic decisions, including tax avoidance practices, as taxes impact corporate profits. Previous studies have found that higher profitability positively influences tax avoidance (Salehi and Salami, 2020). Companies with higher profitability tend to reduce their tax liabilities to maintain higher after-tax income. Conversely, Zhang et al. (2020) discovered that highly profitable companies are more likely to be in the high tax payment group because they avoid activities that could harm their reputation

Company decisions, such as tax avoidance, are certainly inseparable from the management as the one who runs the company's business processes. The upper echelon theory suggests that the personality traits of executives can significantly impact the decisions made by a company. Narcissism is delineated by an individual's imperative for attention, adulation, and societal validation. Narcissistic CEOs commonly manifest an overabundance of self-assurance, a deficit in empathy, and an ardent pursuit of prestige and authority (Chatterjee and

Hambrick, 2007). Hsieh et al. (2014) discovered that high levels of narcissism are closely associated with profit management activities, risk-taking tendencies, and corporate fraud. Firms under the leadership of narcissistic CEOs tend to gravitate towards audacious and high-stakes decisions, encompassing the utilization of unethical accounting practices and aggressively influencing tax policy.

Although the tax resistance strategy in the form of tax avoidance is legal and does not cross the boundaries of applicable regulatory corridors, this action is considered unethical. In addition, tax avoidance has major implications for government revenues which are ultimately used for public purposes.

Enhancing corporate tax compliance may be facilitated through robust corporate governance practices. The efficacy of the oversight function performed by the board of commissioners is believed to be influenced by various factors, including gender diversity, particularly the representation of women on the board. A substantial presence of females at board level tends to indicate a propensity towards conservative approaches in the company's financial reporting endeavors. According to research conducted by Jiang et al. (2021), gender diversity is pivotal in fostering ethical decision-making and promoting heightened transparency in tax matters. Consequently, the inclusion of women on the board of commissioners is perceived as instrumental in mitigating unethical and risky actions such as tax avoidance

This research endeavors to elucidate the correlation between corporate profitability and tax evasion, addressing a previously identified gap in the literature. It explores the influence of CEO narcissism on tax avoidance strategies, employing two proxies to measure narcissistic tendencies: CEO’s photo and signature size. Moreover, the study anticipates offering valuable insights into the significance of female representation in curbing tax avoidance endeavors

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The agency relationship constitutes a contractual arrangement whereby the principal or proprietor confers authority upon another party (the agent) to represent the principal's interests (Jensen and Meckling, 1976). Nevertheless, within this association, conflicts may arise between the principal and agent due to disparate objectives (known as agency problems). Managers, acting as agents, may engage in activities detrimental to the owner's interests, often stemming from information asymmetry. Consequently, corporate governance serves as a mechanism to address such conflicts, encompassing the roles of the board of commissioners, executive remuneration structures, external auditors, and legal frameworks.

Stakeholder Theory

This theory suggests that managers have responsibility for the interests of all company stakeholders (Freeman, 1984). This is because stakeholders have various interests and relationships that affect the achievement of company goals. Company stakeholders include creditors, customers, suppliers, employees, government, and other related parties. In running

its business, the company is influenced or influences many interests from various stakeholders. Therefore, it is important for companies to be able to achieve a balance between stakeholder interests to maintain business continuity. In this case, it demands a wider responsibility, that is, not only towards shareholders, but all relevant parties related to the company's activities.

Tax Avoidance

Based on Law Number 28 of 2007 concerning General Provisions and Tax Procedures defines tax as a mandatory contribution by taxpayers to the state with no direct compensation, which is used as much as possible for the prosperity of the people. The absence of direct rewards is a factor that triggers resistance to taxes. This eventually became an obstacle in tax collection efforts by the government. In general, resistance to taxes is divided into active and passive resistance. Tax avoidance is one form of active resistance carried out to minimize tax payments (Suandy, 2016). Tax avoidance is a tax strategy carried out by utilizing loopholes or gray areas in tax regulations to reduce the amount of tax payments (Pohan, 2018).

Corporate Profitability

Profitability becomes one of the most important attributes of the company that will be assessed by stakeholders in making decisions. Therefore, profitability becomes highly regarded by every company and its managers. Harahap (2011) suggests that profitability reflects the company's ability which is often used by investors, creditors, or managers to assess the efficiency of resource utilization in business operations. Higher returns signify superior profit-earning potential and more adept management.

As a determinant pivotal in shaping myriad economic decisions, profitability stands as a foremost factor influencing engagement in tax avoidance practices (Salehi and Salami, 2020). Previous research of corporate profitability with tax avoidance still found mixed results. Akbari et al. (2018) found a negative relationship between profitability and tax avoidance. This can be attributed to the increased significance placed on preserving a favorable corporate reputation when the company achieves higher performance and profitability. Therefore, companies are reluctant to carry out tax avoidance practices that have the potential to cause or increase the risk of problems with the company's reputation. However, some companies are motivated to reduce their tax burden in order to keep their after-tax income high in order to attract greater investment in it. In addition, the measurement of manager performance is also often seen through the profitability of the company. This condition fosters a proclivity to reduce tax payments by exploiting loopholes in tax regulations and devising more efficient tax planning strategies to sustain favorable profit margins. This condition is confirmed through research through research by Alkurdi et al. (2023), affirming the positive correlation between corporate profitability and tax avoidance. Thus, we formulated a hypothesis:

H1: Profitability is positively related to tax avoidance

Upper Echelons Theory

This theory refers to top executives in companies, such as CEOs and members of the board of directors, who posit that the characteristics possessed by top management influence

strategic decisions, performance, and organizational change (Hambrick and Mason, 1984). Corporate decision making is not only triggered by external factors, but also closely related to internal factors, such as the character of executives as an integral part in carrying out company strategy. Top managers as agents, have a key role in choosing the company's strategy and decision making. Thus, corporate decisions can be predicted through the characteristics of the company's top managers (Chatterjee and Hambrick, 2007).

Narcissism

The American Psychiatric Association (2013) defines narcissism as "a pervasive pattern of grandiosity" (in fantasy or behavior), a need for admiration from others and a lack of empathy. Narcissism is often associated with the desire to have power as well as dominance and control over others to achieve their own goals as well as extreme self-confidence. Narcissistic individuals often dominate the decision-making process (Nevicka et al., 2011). Narcissistic leaders are reputed for their inclination to pursue stimuli that increase the probability of them engaging in more daring and riskier actions. In addition, narcissistic CEOs have high self-confidence and often set unrealistic goals that become difficult to achieve. The need for admiration, appreciation, and recognition from others, backed by high self-confidence, makes narcissistic CEOs tend to set very high targets and goals. This then encourages the CEO to take whatever action can make them achieve their goals.

Narcissistic CEOs are allegedly inclined to undertake challenging and aggressive activities (strategies, policies, practices) in pursuit of garnering accolades and admiration from others to strengthen their personal image and ego (Garcia-Meca et al., 2021). Furthermore, profit as an indicator that is often used to gauge CEOs' efficacy in managing the company, makes narcissistic CEOs adopt aggressive tax strategies to attain heightened profitability. Olsen and Stekelberg's (2016) study revealed a notable influence of CEO narcissism on the potential utilization of corporate tax shelters. Additionally, Garcia-Meca et al. (2021) observed a positive correlation between executive disposition (narcissism) and tax aggressiveness. Moreover, this study utilized two proxies to gauge CEO narcissism, namely, through the size of the CEO's photo and the size of the CEO's signature. Employing these proxies is anticipated to enhance the validity and reliability of the research findings, thereby fortifying assertions regarding the relationship between the narcissistic CEO variable and the dependent variable. Thus, we formulated a hypothesis:

H2a: Narcissistic CEOs (by proxy the size of CEO photos) are positively associated with tax avoidance

H2b: Narcissistic CEOs (by proxy the size of the CEO's signature) are positively associated with tax avoidance

Corporate Governance

Goergen and Renneboog (2006) posit that corporate governance comprises a blend of mechanisms designed to ensure that management operates the company in the best interest of its stakeholders. In this context, stakeholders encompass not only financial contributors but also a broad spectrum of relevant groups, including shareholders, creditors, suppliers, clients,

employees, governments, and other entities connected to the company's operations. Effective corporate governance is crucial for aligning management actions with the interests of the company's stakeholders.

Gender Diversity Board of Commissioners

The Board of Commissioners plays a pivotal role in corporate governance by overseeing the activities of the board of directors. Its presence is essential for ensuring that the directors' actions align with stakeholder interests (Miqdad, 2012). Diversity, within an organizational context, refers to the inclusion of varied perspectives. Some studies support if diversity opens up wider opportunities for success by broadening viewpoints and enhancing decision-making processes, leading to more comprehensive and effective solutions (Watson et al., 1993). In this case, gender diversity in the board of commissioners refers to the representation of women’s commissioners presence. This aspect of diversity is noteworthy regarding the board's supervisory effectiveness. According to Abad et al. (2017), women are believed to be more effective in deterring unethical behavior, one of which is tax avoidance. This is because women are believed to uphold higher moral principles, including avoiding practices that have the potential to bring companies into legal trouble. Empirical studies have shown that women generally exhibit greater risk aversion and a more conservative, exercising greater prudence in their investment strategies (Zeng and Wang, 2015).

Management is believed to have a motivated tendency to minimize tax liabilities through general tax avoidance techniques, often disregarding stakeholder interests (Akbari et al., 2018). The inclusion of women on the board of commissioners is thought to foster a supervisory environment with heightened compliance, guiding managers to conduct company operations in accordance with prevailing regulations (Vacca et al., 2020). Abad et al. (2017) discovered that gender diversity, or increased representation and participation of women on the commissioners, enhances the precision of financial oversight, thereby augmenting the effectiveness of the board's supervisory function. This also includes the avoidance of unethical management practices and the accuracy of tax payments. Research by Chen et al. (2017) investigated the impact of BGD on the relationship between corporate profitability and ETR, revealing that BGD significantly contributes to more ethical decision-making, thereby providing greater transparency in tax payments. Thus, we formulated a hypothesis:

H3: The presence of female board of commissioners can moderate the positive relationship of corporate profitability to tax avoidance.

Moreover, prior research has indicated that feminine traits contribute to better oversight of managers' opportunistic behavior. This implies that female members of the board of commissioners are likely to counteract narcissistic CEOs' propensity for aggressive tax strategies (Garcia-Meca et al., 2021). Multiple studies have shown that women on the board can effectively curb profit manipulation (earnings management) and corporate fraud. Hasseldine (2002) found that gender diversity is related to tax compliance or fulfillment of tax obligations. Consequently, gender diversity within the commissioners is believed to mitigate aggressive tax behaviors, specifically curbing tax avoidance practices by narcissistic CEOs. Thus, we formulated a hypothesis:

H4a: The presence of female board of commissioners can moderate the positive

influence of narcissistic CEOs (by proxy of photo size) on tax avoidance

H4b: The presence of a female board of commissioners can moderate the positive influence of narcissistic CEOs (by proxy signature size) on tax avoidance

RESEARCH METHODS

This research uses secondary data in the form of audited annual reports from companies listed on the Indonesia Stock Exchange (IDX) in the non-financial sector. The period used is 2019-2021. Sampling criteria: (1) non-financial sector companies that have been listed on the IDX before 2019, (2) publish complete annual reports consecutively for the 2019-2021 period, (3) financial statements are presented using rupiah, (4) the closing date of the financial statements is on December 31, (5) do not experience loss conditions, (6) do not delist during the research period, (6) have complete variable data. To test the research hypothesis, we used four models. Model 1 would examine the relationship of corporate profitability and CEO narcissism (photo size proxy) to tax avoidance. Model 2 uses a second proxy for the measurement of CEO narcissism, i.e., signature size. Models 3 and 4 examine whether gender diversity within the board can moderate the relationship between corporate profitability and CEO narcissism toward tax avoidance.

$$ETR_{i,t} = \beta_0 + \beta 1CPROF_{i,t} + \beta 2CEO_Narc1_{i,t} + \beta 3FSIZE_{i,t} + \beta 4LEVER_{i,t} + \beta 5LIQU_{i,t} + \beta 6CEOage_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$ETR_{i,t} = \beta_0 + \beta 1CPROF_{i,t} + \beta 2CEO_Narc2_{i,t} + \beta 3FSIZE_{i,t} + \beta 4LEVER_{i,t} + \beta 5LIQU_{i,t} + \beta 6CEOage_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$ETR_{i,t} = \beta_0 + \beta 1CPROF_{i,t} + \beta 2CEO_Narc1_{i,t} + \beta 3BGD_{i,t} + \beta 4CPROF_{i,t} * BGD_{i,t} + \beta 5CEO_Narc1_{i,t} * BGD_{i,t} + \beta 6FSIZE_{i,t} + \beta 7LEVER_{i,t} + \beta 8LIQU_{i,t} + \beta 9\text{CEOage}_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$ETR_{i,t} = \beta_0 + \beta 1CPROF_{i,t} + \beta 2CEO_Narc2_{i,t} + \beta 3BGD_{i,t} + \beta 4CPROF_{i,t} * BGD_{i,t} + \beta 5CEO_Narc2_{i,t} * BGD_{i,t} + \beta 6FSIZE_{i,t} + \beta 7LEVER_{i,t} + \beta 8LIQU_{i,t} + \beta 9\text{CEOage}_{i,t} + \varepsilon_{i,t} \quad (4)$$

This study uses the dependent variable Effective Tax Rate (ETR) as a proxy for measuring tax avoidance. ETR is a proportion of a company's tax burden compared to pre-tax income (Assidi and Hussainey, 2021). This study used two independent variables, namely, company profitability (CPROF) and narcissistic CEO. The profitability of a company is measured using Return on Assets or ROA (Armstrong et al., 2012). Return On Assets is the company's net profit compared to the company's total assets. The CEO narcissism variable was measured using two proxies. The first proxy is the size of the CEO photo (CEO_Narc1). The size of the CEO photo will be assessed with 4 levels of score (Agnihotri and Bhattacharya,

2019). Score 1; if there is no photo of the CEO in the annual report. Score 2; When the photos contained in the annual report also include other colleagues. Score 3; a photo of the CEO alone with less than half a page in size. Score 4; a photo of the CEO alone with more than half a page in size. Scores will be given for photos on directors' reports and directors' profiles on annual reports which are then averaged. The second proxy is the CEO signature measure (CEO_Narc2). Various studies have used signature size as a proxy in measuring CEO narcissism (Kind et al., 2023). The CEO's signature is extracted from the company's annual report. Researchers encapsulate the signature within a rectangle that touches its furthest points. The signature area is then calculated by multiplying the rectangle's length by its width (measured in centimeters).

The study employed board gender diversity (BGD) as a moderating variable, quantified by the percentage of women on the board of commissioners relative to the total number of board members (Vacca et al., 2020). Additionally, four control variables were incorporated: company size (FSIZE), leverage (LEVER), liquidity (LIQU), and CEO age (CEOage). Company size was measured using the natural logarithm of the company's total assets. Leverage was calculated by dividing total liabilities by total equity. Liquidity was assessed by dividing total current assets by total current liabilities. Data for the first three variables were sourced from the company's financial statements, while CEO age was obtained from the annual report. The study utilized panel data and employed the random effect model for estimation, based on likelihood ratio and Hausman tests.

ANALYSIS AND DISCUSSION

The initial sample used in this study amounted to 429 firm-year. Furthermore, outlier removal is carried out to obtain more accurate results. The final sample of the study used is as follows.

Tabel 1. Final Samples Used

	Model 1	**Model 2**	**Model 3**	**Model 4**
Total samples that meet the criteria	429	429	429	429
outlier	-19	-21	-19	-21
Final sample used	410	408	410	408

Table 2. Descriptive Statistics

Using Photo Proxy					
Variables	**N**	***Minimum***	***Maximum***	***Mean***	***Std. Deviation***
ETR	410	0,000073	0,646708	0,220551	0,115467
CPROF	410	0,000417	0,416320	0,072573	0,063557
CEO_Narc1	410	1,000000	4,000000	2,957317	0,628389
BGD	410	0,000000	1,000000	0,158292	0,205378
FSIZE	410	25,65904	34,73007	29,10645	1,709989

LEVER	410	0,067269	6,052387	0,912147	0,912972
LIQU	410	0,100674	206,8642	3,231306	10,38452
CEOage	410	31,00000	83,00000	56,17561	9,523790
Using Signature Size Proxy					
Variabel	**N**	***Minimum***	***Maximum***	***Mean***	***Std. Deviation***
ETR	408	0,000073	0,637654	0,218769	0,112812
CPROF	408	0,000417	0,416320	0,072898	0,063541
CEO_Narc2	408	1,485803	27,30962	8,063472	4,744564
BGD	408	0,000000	1,000000	0,154983	0,202713
FSIZE	408	25,65904	34,73007	29,09994	1,699571
LEVER	408	0,067269	6,052387	0,912031	0,913201
LIQU	408	0,100674	206,8642	3,240221	10,40922
CEOage	408	31,00000	83,00000	56,25735	9,464011

Regression Results

The Adjusted R^2 of models 1 and 2 is 5.4% and 5.1% respectively while when moderated, the Adjusted R^2 of models 3 and 4 is 23% and 21% respectively. This increase indicates that when moderated by BGD, the relevance of the research model increases. In this case, the remaining 79% is influenced by other variables outside the model. Furthermore, the F test or simultaneous test conducted on each research regression model showed F-statistic probability values (models 1-4) of 0.00007, 0.000149, 0.000000, 0.0000000. Thus showing if the independent and control variables used in the study have a significant influence on the dependent variable simultaneously. Table 3 shows regression results from all four research models.

Table 3. Multiple Linear Regression Results

Narc: PHOTO – Dependent Variable: ETR		
Variable	*Coefficient*	*p-value* (Sig.)
(Constant)	0,575493	0,0001
CPROF	-0,360721***	0,0002
CEO_Narc - PHOTO	-0,009457	0,2919
FSIZE	-0,009675*	0,0547
LEVER	0.009504	0,2565
LIQU	0,001037**	0,0143
CEOage	-0,000522	0,4933
Narc: SIGN - Dependent Variable: ETR		
Variable	*Coefficient*	*p-value* (Sig.)
(Constant)	0,554544	0,0001
CPROF	-0,310151***	0,0011
CEO_Narc - SIGN	0,000734	0,4936
FSIZE	-0,011053**	0,0258
LEVER	0,009544	0,2438
LIQU	0,001037***	0,0110
CEOage	-0,000134	0,8562

Narc: PHOTO – Dependent Variable: ETR		
Variable	*Coefficient*	*p-value* (Sig.)
(Constant)	0,590347	0,0000
CPROF	-0,435866***	0,0000
CEO_Narc1	-0,018816*	0,0532
BGD	-0,534497***	0,0000
CPROF*BGD	1,056097***	0,0028
CEO_Narc1*BGD	0,073522**	0,0427
FSIZE	-0,006723	0,1294
LEVER	0,012194	0,1008
LIQU	0,000989**	0,0107
CEOage	-0,001107	0,1043
Narc: SIGN - Dependent Variable: ETR		
Variable	*Coefficient*	*p-value* (Sig.)
(Constant)	0,525791	0,0000
CPROF	-0,391123***	0,0001
CEO_Narc2	-0,000996	0,3866
BGD	-0,388157***	0,0000
CPROF*BGD	0,944909***	0,0061
CEO_Narc2*BGD	0,011920***	0,0102
FSIZE	-0,007315*	0,0894
LEVER	0,010687	0,1395
LIQU	0,000990***	0,0089
CEOage	-0,000591	0,3685

Based on the results of multiple linear regression, it can be concluded that the company's profitability is positively significantly related to tax avoidance (H1 accepted). In contrast, with no significant association between CEO narcissism and tax avoidance, both measurement proxies showed similar results. Thus, H2a and H2b are rejected. Furthermore, based on the results of regression models 3 and 4, it was found that gender diversity in the board of commissioners was able to moderate the relationship between company profitability and narcissistic CEOs on tax avoidance. Furthermore, results showed that when moderated, the association of CPROF and CEO narcissism was significantly negative to tax avoidance. Therefore, H3, H4a, and H4b accepted.

It is common for anyone that when they already have something, it will be difficult to let go. Similarly, for companies, when they have succeeded in achieving large profits, they often become reluctant to pay the tax burden, considering the amount to be paid is also getting bigger. The tax burden that the company must bear will influence its net profit. A higher ROA reflects the company's enhanced ability to generate substantial profits. Higher profits will trigger large taxes as well. This condition often leads companies to resist relinquishing their hard-earned profits, especially since taxes do not yield direct benefits to the company. Consequently, highly profitable companies typically seek to minimize their tax liabilities. Alkurdi et al. (2023) also identified a propensity for companies with high profitability to engage in tax avoidance activities. Moreover, profitability serves as a key metric for investors when making investment decisions. Companies with robust profitability aim to demonstrate their

efficient asset management and profit generation to potential investors. This drives them towards tax avoidance strategies. The findings of this study align with agency theory.

Multiple factors can lead to the insignificance of a CEO's narcissism in influencing tax avoidance. Stringent tax regulations and sanctions in the regulatory environment pose considerable risks for individuals engaging in tax avoidance. Additionally, narcissistic CEOs prioritize their reputation. In a tax environment characterized by stringent regulations and penalties, such circumstances can influence how a narcissistic CEO makes decisions. These conditions may render them less aggressive in tax avoidance or prompt them to adopt a more conservative approach. The findings of this study suggest the necessity of integrating the Upper Echelon Theory with another theory, namely Trait Activation Theory (TAT). Trait Activation Theory posits that personality traits can be moderated by specific situational factors (Tett & Christiansen, 2007).

Environmental conditions of tax rules that have strict rules and sanctions pose a high risk when someone does tax avoidance. A narcissistic CEO will also attach importance to his reputation. In risky conditions in a tax area that has many demands and sanctions, narcissistic CEOs can tend to be more conservative. The results of this study, found that upper echelon theory must be developed with another theory, namely Trait Activation Theory (TAT). Trait Activation Theory states that personality traits can be moderated by certain situations (Tett & Christiansen, 2007). Thus, the results show that the upper echelon is not always relevant in certain situations. In this case in the area of taxation, creating a situation that can affect the narcissism character of a CEO. The findings of this study indicate that the tax environment can create situations that influence the personality of a narcissistic CEO. These results provide additional insight that an individual's characteristics may not always be the primary influencing factor in decision-making, but can also be influenced by the surrounding environmental circumstances related to those decisions.

Moreover, the research revealed that the correlation between board gender diversity and tax avoidance exhibited a significant positive impact. However, when board gender diversity is interacted with company profitability, this correlation shifts to a significant negative association with tax avoidance. Similar dynamics are observed when board gender diversity is interacted with CEO narcissism. These findings suggest that in profitable company settings, female board members effectively fulfill their supervisory roles across various corporate policies. Alkurdi et al. (2023) reported analogous findings. Furthermore, gender diversity within the board influences the relationship between CEO narcissism and risky corporate conduct. A higher representation of women on the board directs narcissistic CEOs towards eschewing tax avoidance. The research findings parallel those of the study conducted by Garcia-Meca et al. (2021) and also in line with stakeholder theory, concurrently emphasizing the significance of effective corporate governance.

CONCLUSION

The findings indicate that highly profitable companies are inclined to engage in tax avoidance strategies. In addition, the study also found that upper echelon theory is not always relevant in all conditions, in this case under conditions of strict tax sanctions, CEO narcissism does not significantly affect tax avoidance practices. A greater presence of female commissioners can moderate the relationship between corporate profitability and CEO

narcissism regarding the company's tax avoidance activities, thereby limiting tax avoidance practices.

LIMITATIONS AND SUGGESTIONS

This study used only one proxy for tax avoidance measurement, ETR. In addition, measurements of CEO narcissism are also limited to the size of photos and signatures. Future research could use more than one proxy measurement of tax avoidance as well as use other alternative measurements in identifying CEO narcissism such as, the Narcissistic Personality Inventory. In addition, it can also consider the use of additional variables such as financial analyst monitoring, ownership structure, internal control quality, and other characteristics in the board of commissioners to further enrich and improve the quality of research results.

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