

The Dark Tetrad Personality Traits of Tax Avoidance in the Manufacturing Small and Medium Enterprises; An Empirical Evidence from Indonesia

Muhammad Wisnu Girindratama^{1*}, Dian Anita Nuswantara², and Ali Elazumi Ali Alnajjar³

¹Accounting Department, Faculty of Business and Economics, University of Surabaya, Indonesia

²Accounting Department, Faculty of Economics and Business, Universitas Negeri Surabaya, Indonesia

³School of Business and Enterprise, University of Central Lancashire, United Kingdom

E-mail: ¹wisnugirindratama@staff.ubaya.ac.id, ²diananita@unesa.ac.id and ³aali@uclan.ac.uk

* Corresponding Author

Abstract

Introduction/Main Objectives: This study is to examine the tetrad personality traits (Narcissism, Psychopathy, Machiavellianism and Sadism) on tax avoidance in Indonesian small and medium enterprises (SMEs). In this study, we enter the role of rationalization as an intervening variable. **Background Problems:** Previous studies have extensively delved into the examination of firm characteristics and corporate governance as potential predictors of tax avoidance. One notable limitation in the existing body of research is the insufficient attention paid to the individual traits of financial preparers within firms. The personality traits and ethical orientations of these preparers can play a pivotal role in shaping the tax strategies adopted by companies. Overlooking the role of individual traits in tax-related decision-making may result in an incomplete understanding of the dynamics influencing tax avoidance behaviors. **Novelty:** This study is the first of its kind to examine the tetrad personality traits on tax avoidance by rationalization as an intervening variable. **Research Methods:** This research distribute questionnaires to the financial department in the Indonesian small and medium enterprises, particularly those are located in east java. The final data analyzed in this study are 284 questionnaires. **Findings/Results:** The results of this comprehensive study provide compelling evidence supporting the notion that firms led by individuals possessing the Tetrad Personality Traits—Narcissism, Psychopathy, Machiavellianism, and Sadism—are more prone to endorsing and actively engaging in tax avoidance practices by justifying tax avoidance as a tolerable action. **Conclusion:** The evidence presented in this research establishes a compelling link between the psychological characteristics of key decision-makers and the organizational behavior of justifying tax avoidance as an acceptable course of action. The theoretical and practical implications are discussed in this paper.

Keywords: Machiavellianism; Narcissism, Psychopathy; Sadism; SMEs; Tax avoidance; Tetrad personality traits

JEL Classification: E62; M40

Article History: Received: December, 4th 2023 Revised: January, 23th 2024 Accepted: March, 17th 2024
Published: October, 5th 2024

How to cite: Girindratama et al. (2024). The Dark Tetrad Personality Traits of Tax Avoidance in the Manufacturing Small and Medium Enterprises; An Empirical Evidence from Indonesia. *AKRUAL: Jurnal Akuntansi*, 16(1). DOI: 10.26740/jaj.v16n1.p55-p74

Conflict of Interest Statement: There is no conflict of interest in the articles resulting from this research

INTRODUCTION

The provision of public goods stands as one of the primary purposes for which tax revenue is collected (Güzel et al. 2019; Agusti and Rahman, 2023). These goods, ranging from education and healthcare to public safety and environmental protection, contribute to the overall well-being of society. Taxes enable governments to allocate resources efficiently and address the collective needs of their citizens, fostering social cohesion and stability (Ji et al., 2021; Carsamer and Abbam, 2023). Without a reliable source of revenue, the ability of governments to deliver essential services would be severely compromised, leading to a decline in the overall quality of life for the population. While the act of paying taxes may be perceived as burdensome, it is essential to recognize that taxes serve as a societal contract—a financial commitment from citizens to support the greater good. Taxes are a means by which individuals collectively contribute to the well-being of society, fostering an environment where everyone has access to basic necessities, opportunities for education and growth, and a secure and protected way of life (Ji et al., 2021).

However, in the contemporary landscape, the landscape of taxation has become increasingly complex, and individuals as well as corporations are employing sophisticated strategies to minimize their tax liabilities (Khan et al., 2023). This behavior is often referred to as tax avoidance, a term that encapsulates the deliberate actions taken to reduce tax obligations through legal means (Wang et al., 2020). It raises critical questions about the fairness and sustainability of the current tax system. This practice operates in a manner that runs contrary to the policy or spirit of government legislation (Beer et al., 2020). As entities exploit legal loopholes, engage in profit shifting, or utilize offshore tax havens, the overall tax revenue collected by governments is diminished (Dyrenge et al., 2019). This reduction in funds directly affects the ability of governments to finance public projects and programs. It essentially leads to potential cuts in essential services or increased reliance on debt, both of which can have detrimental long-term consequences for economic stability. Additionally, when high-income individuals and multinational corporations successfully reduce their tax burdens, the burden of financing public services disproportionately falls on the shoulders of lower-income individuals and small businesses (Oats and Tuck, 2019). This imbalance in contribution creates a two-tiered society where the disadvantaged have limited access to quality education, healthcare, and other vital services (Beer et al., 2020). The resulting social inequalities hinder the government's ability to foster an inclusive and equitable society (Güzel et al. 2019).

To date, the issue of tax avoidance among Small and Medium-sized Enterprises (SMEs) remains a significant concern on a global scale (Khan et al., 2023), and Indonesia is no exception to this worrisome trend (Inasius, 2019; Agusti and Rahman, 2023). One of the primary reasons for the concern surrounding tax avoidance by SMEs is the complexity of the tax systems they operate within (Sánchez-Ballesta and Yagüe, 2021). SMEs often lack



the financial resources and expertise to navigate intricate tax regulations effectively (Ngelo et al., 2022). This creates opportunities for unscrupulous practices, such as aggressive tax planning and the exploitation of loopholes, allowing these enterprises to reduce their tax liabilities significantly (Elbannan and Farooq, 2020). In the context of Indonesia, a country with a rapidly growing SME sector, the challenges associated with tax avoidance are particularly pronounced. One of the key factors contributing to tax avoidance among Indonesian SMEs is the complexity of the tax system (Inasius, 2019; Ngelo et al., 2022). It opens the doorways for unscrupulous practices. According to several authors, some SMEs exploit such intricate nature of the tax regulations or engage in deceptive practices to minimize their tax liabilities (Bimo et al., 2019; Agusti and Rahman, 2023; Ngelo et al., 2022).

While numerous studies have delved into the antecedents of tax avoidance, a significant proportion of this research has been predominantly fixated on examining corporate characteristics and governance characteristics. For example, they examine firms characteristics, related to firm size, industry type, stock price crash risk, and leverage ratios (e.g. Sánchez-Ballesta and Yagüe, 2023; Carsamer and Abbam, 2023), and corporate governance characteristics, associated with board characteristics, ownership structure, audit committee, gender diversity (Wang et al., 2020; Clemente-Almendros and González-Cruz, 2023). These studies often employ a multifaceted approach, combining financial, economic, and organizational perspectives to construct a comprehensive understanding of the variables at play. These characteristics may provide a foundation for understanding a company's tax behaviour (Cooper and Nguyen, 2020), but it may not capture the full spectrum of individual intentions within the organization. They fall short in explaining the intricate point of individual intentions.

According to (Wang et al., 2020), to comprehend the human dimension of tax avoidance, it is essential to explore psychological and behavioral factors. Individual intentions can be influenced by financial pressures, perceptions of fairness, attitudes toward risk, and even the prevailing organizational culture. Some individuals might view tax avoidance as a way to maximize personal financial gains, especially if they believe their actions align with the organization's overarching goals. Alternatively, a perception that others in the industry are engaging in aggressive tax planning could normalize such behavior within an organization. Additionally, employees might rationalize their actions by perceiving tax avoidance as a means to enhance corporate competitiveness or view it as a response to what they perceive as an unjust tax system. The problem is that the study of tax avoidance from the human dimension is an essential and yet often overlooked aspect of research in the field of economics and finance (Gangl and Torgler, 2020). Similarly, Kovermann and Velte, (2019) note that there is a noticeable gap in understanding the human behavior and motivations that drive individuals and businesses to engage in tax avoidance practices. The position of the current study is to take such topical issues as a primary focus of study by emphasising a shift towards a more holistic, human-centered approach.

To develop a comprehensive understanding of tax avoidance, the current study is to explore a company's likelihood to engage in tax avoidance by examining the financial

preparers’ personality traits. The financial preparers, often comprising accountants, tax professionals, and financial analysts, play a crucial role in shaping a company's tax strategy and financial decision-making. Their individual characteristics, including personality traits, can potentially influence the organization's approach towards tax planning and avoidance. Personality traits such as risk tolerance, ethical orientation, and cognitive styles may contribute to the formulation and execution of tax strategies that either align with or diverge from the prevailing norms and regulations.

As a focus of study, we employ the tetrad personality traits (such as narcissism, psychopathy, Machiavellianism, and sadism) (Paulhus et al., 2018), as predictors of the financial preparers’ intention to commit tax avoidance. These personality traits, collectively known as the Dark Tetrad, are characterized by manipulative tendencies, lack of empathy, and a proclivity for exploiting others for personal gain (Forsyth et al., 2021). The integration of the Dark Tetrad into the analysis serves as a novel and intriguing dimension, shedding light on the potential psychological drivers behind tax-related decision-making in the corporate context.

The theoretical framework underpinning this study is grounded in the theory of rational choice, which posits that individuals make decisions based on a rational assessment of costs and benefits (Herfeld, 2022). In the context of tax avoidance, financial preparers may be viewed as rational actors making strategic choices to maximize the company's financial outcomes. By integrating the Dark Tetrad as predictors within this rational choice framework, the research aims to unravel the intricate interplay between personality traits and decision-making processes, providing valuable insights into the psychological drivers of tax-related intentions among financial preparers. Particularly, our study offers a unique lens through which to examine the psychological underpinnings of tax-related decision-making, enriching both academic discourse and practical implications for corporate governance and policy development.

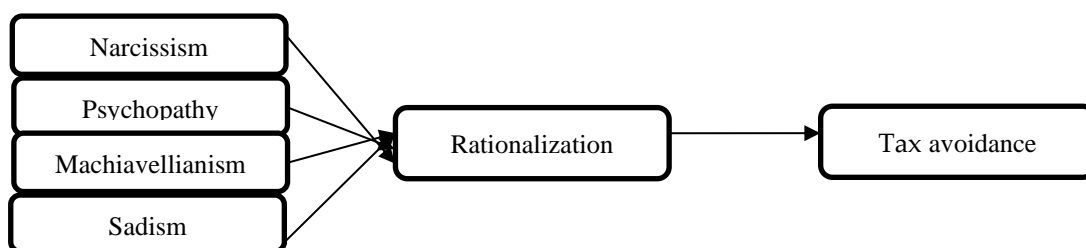


Figure 1. Research framework

According to the theory of rational choice, individuals are assumed to make decisions by carefully weighing the costs and benefits associated with each alternative by making



rational justification (Dietrich and List, 2013). In the context of this study, the application of rational choice theory provides a lens through which to understand the decision-making processes involved in tax avoidance within Indonesian small and medium enterprises (SMEs). The theory of rational choice posits that individuals, even those with potentially detrimental personality traits (Quackenbush, 2004), will engage in tax avoidance practices if they justify or rationalize their decisions. As such, rationalization becomes a crucial element in understanding how individuals with dark tetrad personality traits navigate the decision-making process related to tax avoidance. We expect that individuals may strategically employ rationalization to reconcile their actions with their self-interest, thereby influencing their engagement in tax avoidance practices.

Rationalization and tax avoidance are interconnected concepts that often intersect within the realm of business and financial decision-making. The way in which rationalization and tax avoidance intersect is through the reevaluation and restructuring of corporate structures. Companies often engage in rationalization efforts to streamline their operations, eliminate inefficiencies, and reduce costs (Dyrenge et al., 2022). In this process, they may also consider the tax implications of their organizational structure (Guo et al., 2023). For instance, restructuring a business to operate in jurisdictions with lower corporate tax rates or taking advantage of tax incentives offered by certain regions can be part of a rationalization strategy aimed at minimizing overall tax burdens.

Additionally, rationalization can lead to the reevaluation of business activities to identify opportunities for tax optimization. This may involve reclassifying certain expenses, allocating income to jurisdictions with favorable tax treatment, or strategically timing transactions to take advantage of tax deductions (Xiao and Xi, 2023). For instance, one common rationalization tactic employed for tax avoidance is the use of complex corporate structures and subsidiaries in different jurisdictions (Shams et al., 2022). This allows companies to take advantage of varying tax rates and regulations across countries, effectively lowering their overall tax burden. The use of offshore tax havens, where corporate tax rates are often significantly lower, is another strategy employed in rationalization for tax avoidance purposes. Multinational corporations, in particular, may exploit these structures to shift profits to low-tax jurisdictions, thereby reducing their global tax obligations. Based on this line of reasoning, we propose our hypothesis as follows:

H1: There is positive relationship between rationalization and tax avoidance.

One way in which narcissism may contribute to tax avoidance is through a heightened focus on personal wealth accumulation and a diminished concern for societal obligations. Individuals with narcissistic traits may be less inclined to prioritize their social responsibility to contribute to public finances through taxes (Kalbuana et al., 2023). Instead, they might view tax avoidance as a means to bolster their personal financial standing, reinforcing their perception of self-importance and financial success. Individuals with narcissistic traits may be less inclined to prioritize their social responsibility to contribute to public finances through taxes (Lestari and Mutmainah, 2023).

Rationalization becomes a crucial component in this dynamic, allowing individuals with high levels of narcissism to construct justifications for tax avoidance that align with their perception of entitlement and exceptionalism (Matute et al., 2021). The cognitive dissonance between societal expectations and their self-centered goals is resolved through rationalization (Shafer and Simmons, 2008), enabling them to view tax avoidance as a strategic move within the bounds of their perceived superiority. Narcissistic individuals employ cognitive mechanisms to reinterpret tax obligations as impediments to their personal success rather than societal contributions (Pickhardt and Prinz, 2014). They might convince themselves that traditional ethical norms do not apply to them, fostering a belief that their extraordinary qualities exempt them from conforming to societal expectations, including tax responsibilities. Furthermore, rationalization could serve as a tool for Narcissistic individuals to deflect blame and maintain a positive self-image. By framing tax avoidance as a rational business decision, divorced from ethical considerations, they may distance themselves from any perceived wrongdoing. This cognitive process helps Narcissistic individuals preserve their self-esteem and shield themselves from the potential moral repercussions of their actions. Based on this line of reasoning, we propose our hypothesis as follows:

H2: There is positive relationship between Narcissism and rationalization to commit tax avoidance.

H3: Rationalization mediates a positive relationship between Narcissism and tax avoidance.

The intersection between psychopathy and rationalization in the context of tax avoidance may provide insights into the mindset of individuals who engage in such activities. Psychopathy is characterized by traits such as a lack of empathy, impulsivity, and a manipulative interpersonal style (Blair et al., 2006). One way in which psychopathy and rationalization intersect in the context of tax avoidance is through the manipulation of moral reasoning. Psychopathic individuals may possess a heightened ability to detach themselves emotionally from the consequences of their actions (Gillespie et al., 2022), allowing them to rationalize tax avoidance as a strategic and necessary financial decision rather than an unethical or illegal behavior. They might convince themselves that exploiting legal loopholes or engaging in aggressive tax planning is merely a shrewd business practice rather than an act with ethical implications.

A psychopathic individual may use their charisma to convince others, including employees or business partners (Mathieu et al., 2022) that aggressive tax strategies are not only legitimate but also advantageous for everyone involved. Additionally, the lack of remorse and guilt commonly observed in psychopathic individuals plays a role in the rationalization process regarding tax avoidance (O'Reilly and Chatman, 2020). While many individuals may feel a moral obligation to contribute their fair share to society through taxes



(Plunkett et al., 2023), psychopathic individuals may lack this internal compass. Their ability to rationalize their actions as morally neutral or justified allows them to sidestep any ethical concerns associated with tax avoidance, facilitating their engagement in such practices without experiencing the moral discomfort that others might feel. This manipulation of perception can contribute to a culture within an organization that normalizes questionable tax practices. Based on this line of reasoning, we propose our hypothesis as follows:

H4: There is positive relationship between Psychopathy and rationalization to commit tax avoidance.

H5: Rationalization mediates a positive relationship between Psychopathy and tax avoidance.

In the realm of tax avoidance, individuals with Machiavellian tendencies may engage in rationalization as a means to legitimize their actions, shielding themselves from moral scrutiny (Jones and Mueller, 2021). One key aspect of Machiavellian rationalization in the context of tax avoidance is the manipulation of social perceptions. Machiavellian individuals are adept at shaping how they are perceived by others, and this skill is harnessed to create a narrative that mitigates moral condemnation (Blötner et al., 2021). Through persuasive communication and a calculated use of language, they present their tax avoidance as not only legal but also as a practice that serves broader economic interests. This strategic manipulation of perception extends beyond personal beliefs to influence stakeholders, including employees, shareholders, and regulatory bodies, creating an environment where Machiavellian tax practices may be accepted or overlooked.

Moreover, the Machiavellian inclination to manipulate and exploit others may extend to the tax system itself (Monaghan et al., 2020). Individuals high in Machiavellian traits might rationalize their actions by viewing tax laws and regulations as tools that can be manipulated to their advantage. They may see tax avoidance as a form of strategic maneuvering within the legal framework, exploiting loopholes or ambiguities to achieve financial benefits without technically violating the law (De Hoogh et al., 2021). The ability of Machiavellians to rationalize tax avoidance is also linked to their capacity for moral flexibility. These individuals may possess a pragmatic view of ethics, allowing them to adapt their moral judgments based on situational factors. Therefore, we propose our hypothesis as follows:

H6: There is positive relationship between Machiavellianism and rationalization to commit tax avoidance.

H7: Rationalization mediates a positive relationship between Machiavellianism and tax avoidance.

The relationship between sadism and rationalization in the context of tax avoidance is a particularly intriguing and complex interplay, bringing together psychological tendencies and ethical considerations. Sadism, characterized by deriving pleasure from inflicting pain or suffering on others, may seem disparate from the seemingly mundane realm of tax practices (Bonfá-Araujo et al., 2022). However, when examined in the context of rationalization, a connection emerges as individuals with sadistic tendencies may utilize cognitive processes to justify their participation in morally dubious actions such as aggressive tax avoidance. Individuals with sadistic inclinations may find pleasure in exploiting legal loopholes, engaging in complex tax avoidance schemes, and reveling in the sense of superiority that comes from successfully navigating the intricacies of tax laws. Rationalization becomes a psychological tool that enables them to frame these actions not as morally questionable but as intellectually superior maneuvers within the bounds of legality (Maciejovsky et al., 2012).

Rationalization in the context of sadistic tax practices may also involve the dehumanization of those affected by the consequences of aggressive tax avoidance. While many individuals may feel a moral obligation to contribute to society through taxes (Kovermann and Velte, 2019), those with sadistic inclinations may lack the emotional capacity to empathize with the hardships caused by their actions. Rationalization helps them maintain a detached perspective, framing tax avoidance as a strategic financial decision rather than an ethically problematic behaviour (Payne and Raiborn, 2018). Additionally, individuals with sadistic tendencies may take pleasure in convincing others—be it employees, collaborators, or even regulatory authorities—that their aggressive tax practices are not only legal but also socially beneficial (Blaufus et al., 2016). The satisfaction gained from successfully deceiving others becomes a reinforcing factor in their rationalization process, further solidifying their belief that their actions are justified within the framework of the law and societal norms (Freedman, 2005). Based on this line of reasoning, we propose our hypothesis as follows:

H8: There is positive relationship between sadism and rationalization to commit tax avoidance.

H9: Rationalization mediates a positive relationship between sadism and tax avoidance.

METHOD

The foundation of this research rests upon the meticulous collection and analysis of data obtained through a structured questionnaire. The target respondents for this study are SMEs situated in the region of East Java, Indonesia. The chosen sector for this investigation is the manufacturing industry. The rationale is grounded in its significant economic impact, its intricate supply chain dynamics, and its susceptibility to various financial strategies.



Manufacturing, as a cornerstone of economic activity, often involves complex financial structures, and a multitude of tax implications. Therefore, understanding the extent and nature of tax avoidance within this sector is crucial for policy development, regulatory frameworks, and the overall health of the economy.

The distribution of 430 questionnaires marked the initial phase of data collection for this study, which are distributed to the targeted SMEs in the manufacturing sector in East Java. However, the return rate of 376 completed questionnaires indicates a response rate of approximately 87.4%, showcasing a robust engagement from the surveyed businesses. Due to some incomplete information, we removed them. The final dataset of 284 questionnaires represents a carefully curated selection that meets predefined criteria for completeness and relevance.

The demographic breakdown of participants in your study provides valuable insights into the composition of the respondent pool, offering a nuanced understanding of the characteristics of those involved in the research. Firstly, the near balance in gender participation, with 48% female and 52% male respondents, suggests a representative sample that considers the diversity of perspectives across genders. The educational background of the participants further enriches the understanding of the sample. With 36% of participants having graduated from accounting, 26% from management, and 38% from taxation, the study encompasses a diverse range of academic specializations. Then, the distribution of educational qualifications reveals that a substantial portion of participants, around 86%, hold bachelor's degrees, while 14% hold diploma degrees. This educational diversity is important as it may impact the way respondents perceive and engage with the questionnaire, potentially influencing their responses regarding topics related to manufacturing, taxation, and management.

As previously mentioned that tetrad personality traits comprise Narcissism, Psychopathy, Machiavellianism, and Sadism. The measurements of these personality traits were adapted and modified from prior studies. The scales measuring “Narcissism, Machiavellianism, Psychopathy, and Sadism” are adapted from (Jones and Paulhus, 2014; Plouffe et al., 2017). We made some modifications because it is to ensure that the scale aligns seamlessly with the nuances of our research objectives. In regards to rationalization, its scales were adapted from Moore et al. (2012). Furthermore, to measure tax avoidance we used scales developed by Fuadah et al. (2022). All of these scales were rated on a 1 (strongly disagree) to 5 (strongly agree) Likert scale.

To test the hypotheses regarding tax avoidance, SEM-PLS enables a comprehensive analysis of the interplay between various factors that might contribute to or mitigate tax avoidance practices within the manufacturing SMEs in East Java. The method considers both observed and latent variables, providing a robust framework to examine the intricate relationships among these variables. SEM-PLS allows for the testing of the hypotheses by estimating the strength and direction of the relationships among the variables in the proposed model. Furthermore, SEM-PLS accommodates the examination of both direct and indirect effects, enabling researchers to delve into the mediating factors that may influence the

relationship between certain variables and tax avoidance. This holistic approach provides a nuanced understanding of the intricate web of factors influencing tax-related behaviors in the context of manufacturing SMEs in East Java.

RESULT AND DISCUSSION

A well-constructed and validated measurement model is essential for ensuring the reliability and validity of the latent variables under investigation. As the initial steps, we navigate through convergent validity, assessing the collective contribution of all indicators to the explained variance of their intended constructs. The results are illustrated in Tables 1. The internal consistency reliability of the Measurement Model, as assessed through composite reliability, serves as a foundational pillar in establishing the trustworthiness of the latent constructs under scrutiny. The criterion for achieving internal consistency reliability typically involves surpassing a designated cut-off value, often set at ≥ 0.70 . In our exploration, the values obtained for composite reliability exceeded this threshold, affirming that the latent variables within the model exhibit strong internal consistency. In tandem with the assessment of internal consistency, the Average Variance Extracted (AVE) is a key metric in this context, and achieving a minimum criterion of ≥ 0.5 . It is widely accepted in the literature, with AVE values ranging between 0.513 to 0.801. These values signify that, on average, more than half of the variance in the observed variables is explained by their corresponding latent constructs.

Table 1. Cronbach's Alpha, Composite Reliability, Average Variance Extracted (AVE)

| Constructs | Cronbach's Alpha | Composite Reliability | Average Variance Extracted (AVE) |
|------------------|------------------|-----------------------|----------------------------------|
| Machiavellianism | 0.831 | 0.862 | 0.557 |
| Narcissism | 0.876 | 0.924 | 0.801 |
| Psychopathy | 0.892 | 0.925 | 0.755 |
| Rationalization | 0.807 | 0.867 | 0.567 |
| Sadism | 0.910 | 0.933 | 0.737 |
| Tax avoidance | 0.767 | 0.836 | 0.513 |

Source: PLS Output

The inclusion of Cronbach's Alpha in Table 1 provides an additional layer of insight into the internal consistency reliability of the measurement instrument. Cronbach's Alpha is a widely used coefficient that assesses the reliability of a set of items within a scale or construct. In the context of Table 1, the reported Cronbach's Alpha values contribute to the overall evaluation of the reliability of the latent constructs under consideration. The results of Cronbach's Alpha analysis reveal a favorable picture, with values ranging from 0.767 to 0.910. These coefficients, exceeding the commonly accepted threshold of 0.70, signify robust internal consistency among the items associated with each latent construct. A



Cronbach's Alpha value of 0.767 to 0.910 suggests that the items within each construct are highly correlated, indicating a high degree of reliability.

To strengthen those results, we went to another analysis. It is discriminant analysis. It serves as a powerful tool to ensure that the latent constructs are distinct entities, each uniquely captured by its associated indicators. By examining the discriminant validity of the Measurement Model, we can assess whether the constructs are adequately differentiated from one another. For this analysis, we use Fornell-Larcker Criterion and Heterotrait-Monotrait Ratio (HTMT). The results are provided in Tables 2 and 3. Table 2 suggests good discriminant validity for our constructs. As shown, the square root of the AVE for a construct is greater than the correlations with other constructs. The square root of the AVE represents the proportion of the construct's variance that is captured by its indicators relative to measurement error. When this value is greater than the correlations with other constructs, it implies that a larger portion of the variance within the construct is attributable to the underlying concept it is intended to measure, as opposed to shared variance with other constructs.

Moreover, in the present analysis, the HTMT ratio results have been found to be lower than the commonly used threshold of 0.090 (*see* Table 4). This threshold serves as a benchmark to evaluate the extent to which the constructs in the model are distinct from each other. A HTMT ratio below 0.090 suggests that the constructs share less common variance with each other compared to their individual variances, indicating satisfactory discriminant validity.

Table 2. Fornell-Larcker Criterion

| Constructs | 1 | 2 | 3 | 4 | 5 | 6 |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1. Machiavellianism | 0.746 | | | | | |
| 2. Narcissism | 0.583 | 0.895 | | | | |
| 3. Psychopathy | 0.550 | 0.154 | 0.869 | | | |
| 4. Rationalization | 0.564 | 0.134 | 0.639 | 0.753 | | |
| 5. Sadism | 0.650 | 0.165 | 0.627 | 0.696 | 0.858 | |
| 6. Tax avoidance | 0.297 | 0.227 | 0.305 | 0.277 | 0.212 | 0.716 |

Source: data processed

Table 3. Heterotrait-Monotrait Ratio (HTMT)

| Constructs | 1 | 2 | 3 | 4 | 5 | 6 |
|---------------------|-------|-------|-------|-------|-------|---|
| 1. Machiavellianism | - | | | | | |
| 2. Narcissism | 0.805 | - | | | | |
| 3. Psychopathy | 0.529 | 0.175 | - | | | |
| 4. Rationalization | 0.581 | 0.157 | 0.747 | - | | |
| 5. Sadism | 0.598 | 0.184 | 0.693 | 0.815 | - | |
| 6. Tax avoidance | 0.337 | 0.255 | 0.338 | 0.317 | 0.229 | - |

Source: data processed

After establishing the convergent and discriminant validity of our study, the next crucial step involves a thorough examination of the structural model. The structural model, within the framework, delves into the relationships between latent constructs and their observed indicators, providing insights into the underlying theoretical framework of the research. It is discussed in the next section.

Table 4. Direct effects

| Paths | Original Sample | Standard Deviation | T Statistics | P Values |
|-------------------------------------|-----------------|--------------------|--------------|----------|
| Machiavellianism -> Rationalization | 0.196 | 0.073 | 2.676 | 0.008 |
| Narcissism -> Rationalization | -0.092 | 0.043 | 2.143 | 0.033 |
| Psychopathy -> Rationalization | 0.296 | 0.079 | 3.741 | 0.000 |
| Rationalization -> Tax avoidance | 0.277 | 0.050 | 5.525 | 0.000 |
| Sadism -> Rationalization | 0.399 | 0.063 | 6.353 | 0.000 |

Source: data processed

Table 4, reports the direct effects of narcissism ($\beta = -0.092$, $p < 0.05$), psychopathy ($\beta = 0.296$, $p < 0.05$), Machiavellianism ($\beta = 0.196$, $p < 0.05$), and sadism ($\beta = 0.399$, $p < 0.05$), on rationalization. These results provide empirical evidence that our hypothetical framework, *H2*, *H4*, *H6*, and *H8* are supported. Similarly, we also found that positive and significant coefficients of rationalization on tax avoidance ($\beta = 0.277$, $p < 0.05$). As such, *H1* is accepted. It means that the more people perceive tax avoidance as permissible actions, then, the higher should be their intention to commit tax avoidance. This concept hinges on the idea that people's attitudes and beliefs regarding the moral acceptability of tax avoidance play a crucial role in shaping their intentions to partake in such financial practices.

Furthermore, Table 5 reports the analysis of indirect effects of the tetrad personality traits, comprising Narcissism, Psychopathy, Machiavellianism, and Sadism, on tax avoidance practices. As reported, rationalization mediates the relationships between narcissism ($\beta = -0.025$, $p < 0.05$), psychopathy ($\beta = 0.082$, $p < 0.05$), Machiavellianism ($\beta = 0.054$, $p < 0.05$), sadism ($\beta = 0.110$, $p < 0.05$) and tax avoidance. Thus, *H3*, *H5*, *H7*, *H9* are accepted. The obtained results in this study provide robust support for the earlier analyses about the pivotal role of rationalization in influencing individuals' intentions to engage in tax avoidance behaviors. It can be argued, individuals who exhibit a higher propensity for rationalization are more inclined towards intending to commit tax avoidance.



Table 5. Indirect Effects

| Paths | Original Sample | Standard Deviation | T Statistics | P Values |
|--|-----------------|--------------------|--------------|----------|
| Machiavellianism -> Rationalization -> Tax avoidance | 0.054 | 0.024 | 2.272 | 0.024 |
| Narcissism -> Rationalization -> Tax avoidance | -0.025 | 0.013 | 1.973 | 0.049 |
| Psychopathy -> Rationalization -> Tax avoidance | 0.082 | 0.029 | 2.857 | 0.004 |
| Sadism -> Rationalization -> Tax avoidance | 0.110 | 0.027 | 4.063 | 0.000 |

Source: data processed

The complex interplay between individual personality traits and financial behaviors has long been a subject of interest in the field of psychology and business (Fachrudin, K. A., & Latifah, 2022; De Hoogh et al., 2021). Our study observes the Tetrad Personality Traits - encompassing Narcissism, Psychopathy, Machiavellianism, and Sadism - and their potential influence on tax avoidance within the context of Indonesian small and medium enterprises (SMEs). With the increasing importance of SMEs in driving economic growth, understanding the factors that contribute to their financial decision-making is crucial. The inclusion of rationalization as an intervening variable adds an additional layer of complexity to this investigation.

The empirical findings of our study reveal compelling evidence supporting the assertion that Tetrad Personality Traits exert direct effects on the process of rationalization (Brugués and Caparrós, 2022), leading to the commission of tax avoidance. People who have the Tetrad Personality Traits are more likely to engage in cognitive distortions that justify their actions (Moshagen et al., 2018), framing tax avoidance as a strategic and necessary maneuver in the pursuit of personal gain. For them, the ends justify the means, and cognitive distortions serve as a means to reconcile the ethical dilemmas associated with engaging in financial strategies that exploit legal loopholes for personal benefit.

It can be argued, our study on the intersection of the Tetrad Personality Traits and rationalization in the context of tax avoidance highlights the intricate interplay between individual psychology and societal structures. Machiavellian individuals, for instance, are known for their cunning and manipulative nature, making them adept at exploiting loopholes in tax laws. Narcissists may view tax evasion as a way to enhance their self-image and maintain a lavish lifestyle, disregarding the societal impact of their actions. Moreover, psychopathy, characterized by a lack of empathy and remorse, might lead individuals to rationalize tax avoidance by dissociating themselves from the societal consequences. The sadistic element of the Tetrad raises questions about whether some individuals derive pleasure from outsmarting the tax system, pushing the boundaries without regard for the common good.

Such results indicate that the effects of the Tetrad Personality Traits on tax avoidance are not likely to be direct; instead, they are mediated by the process of rationalization. The

relationship between personality traits and tax avoidance is complex, and the rationalization process serves as a crucial intermediary factor that shapes how individuals with certain personality traits navigate decisions related to tax avoidance (Cushman, 2020). As suggested in our study, one of the primary functions of rationalization in tax avoidance is the construction of a narrative that aligns with an individual's self-interest or ethical framework. It also serves as a psychological defense mechanism (De Neys, 2023), providing individuals with a means to mitigate feelings of guilt or moral discomfort associated with tax avoidance. By constructing justifications that emphasize legality, financial prudence, or the perceived unfairness of the tax system, individuals can ease cognitive dissonance and maintain a positive self-image. This process involves creating narratives that portray their actions as socially acceptable, justifiable, or even commendable. Therefore, this cognitive dissonance reduction is crucial for individuals to continue their tax avoidance practices without significant internal conflict.

Therefore, through this study we can conclude that firms run by people who have the Tetrad Personality Traits, Narcissism, Psychopathy, Machiavellianism, and Sadism, are more to justify tax avoidance as tolerable actions. We agree with Bailey (2019) that the Tetrad Personality Traits are associated with manipulative, self-centered, and morally dubious behaviors, and their influence on business decision-making, particularly in the realm of tax-related choices, has been a subject of growing interest.

CONCLUSION

The findings of the study illuminate a compelling link between the Dark Tetrad traits and the inclination to rationalize tax avoidance. Individuals exhibiting high levels of Narcissism, characterized by an inflated sense of self-importance, Psychopathy, marked by a lack of empathy and remorse, Machiavellianism, involving manipulation and deceit, and Sadism, deriving pleasure from others' suffering, are more likely to engage in cognitive processes that justify tax evasion as socially and legally acceptable. In this sense, rationalization is proved to be an intervening variable in predicting people's intention to commit tax avoidance. These results have theoretical and practical implications.

In terms of theoretical implications, central to the study's insights is the identification of rationalization as a pivotal intervening variable in predicting individuals' intentions to commit tax avoidance. This suggests that the cognitive processes through which individuals rationalize their actions play a crucial role in shaping their decisions regarding tax-related behaviors. Understanding this intermediary step provides a nuanced perspective, going beyond merely firm and corporate governance characteristics as predictors driving tax-related decision-making. Moreover, our study enriches the understanding of the Dark Tetrad's influence on rationalization in the context of tax avoidance. It contributes to the broader field of personality psychology by expanding the knowledge base on the intersection



of dark personality traits and ethical decision-making, particularly in the financial realm. On a practical level, the study's outcomes offer actionable insights for policymakers, tax authorities, and psychologists working in the field of financial ethics. Recognizing the direct impact of the Dark Tetrad traits on rationalization allows for the development of targeted interventions and educational initiatives. Strategies aimed at curbing tax avoidance can be tailored to address the specific cognitive processes associated with these personality traits, fostering a more effective approach to promoting tax compliance.

AUTHORSHIP CONTRIBUTION STATEMENT

All authors contributed to this article by compiling content, analyzing data, and making conclusions.

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