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CEO power and tax avoidance: An empirical study of manufacturing companies in Indonesia

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ABSTRACT

This study aims to empirically examines the relationship between CEO power and tax avoidance. The lack of consistent empirical evidence regarding the relationship between CEO power and tax avoidance strategies encourages a deeper investigation into the mechanisms underlying this relationship. This study examines various aspects of CEO power and their impact on tax avoidance, thereby providing a more detailed under-standing of these complex interactions. The sample used in this study is 301 manufac-turing companies listed on the Indonesia Stock Exchange (IDX) for the period of 2015-2019. The data obtained are analyzed using SPSS version 20 software with multiple linear regression analysis. The results of this study show that expert power and prestige power have a positive relationship with tax avoidance, while ownership power has a negative relationship with tax avoidance. It is expected that this study provide theoretical benefits as a reference and knowledge for further research and practical benefits that are useful for the Directorate General of Taxes to formulate policies to reduce the risk of tax avoidance.

ABSTRAK

Penelitian ini bertujuan untuk menguji secara empiris hubungan power CEO dengan penghindaran pajak. Belum adanya bukti empiris yang konsisten mengenai peran kekuasaan CEO pada strategi penghindaran pajak memerlukan penyelidikan lebih mendalam terhadap mekanisme yang mendasari hubungan ini. Studi ini mengisi kesenjangan ini dengan memeriksa berbagai aspek kekuasaan CEO dan dampaknya terhadap penghindaran pajak, sehingga memberikan pemahaman yang lebih terperinci mengenai interaksi kompleks ini. Sampel yang digunakan dalam penelitian ini berjumlah 301 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia tahun 2015-2019. Data yang diperoleh dianalisis menggunakan software SPSS versi 20 dengan metode analisis regresi linier berganda. Hasil penelitian menunjukkan bahwa kekuasaan ahli dan kekuasaan prestise berhubungan positif dengan penghindaran pajak, sedangkan kekuasaan kepemilikan berhubungan negatif dengan penghindaran pajak. Penelitian ini diharapkan dapat memberikan manfaat teoritis sebagai referensi dan pengetahuan untuk penelitian selanjutnya, serta manfaat praktis yang berguna bagi Direktorat Jenderal Pajak untuk membuat kebijakan dalam mengurangi risiko penghindaran pajak.

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1. INTRODUCTION

Compared to other sources, taxes are the largest source of state revenue. The government tries to obtain maximum profits from the tax sector because taxes are the country's main source of income. On the other hand, companies consider taxes as a burden that can reduce the net profit generated so they try to minimize these costs. One way to reduce the tax burden is to avoid tax. Tax avoidance is carried out to reduce or minimize tax obligations by making use of loopholes in tax provisions, which means that this action is not considered a violation of tax regulations and can later increase company profits (Jacob, 2014). Management has made various efforts to minimize and reduce the tax burden, one of which is through tax avoidance (Pratama et al., 2022).

Top executives play a very important role in determining the level of tax avoidance carried out by a company (Dyreng et al., 2010; Laguir & Staglianò, 2014). The chief executive officer (CEO), as the highest position among other executive positions, has responsibility for all operational activities of the company. Thus, CEO can influence tax avoidance by setting guidelines in tax planning at the highest management level (Hsieh et al., 2018). In general, the CEO has the power to determine company policies, which can later have a big impact on the company, or commonly referred to as CEO power. Lee & Kao (2020) state that the greater the CEO's power, the greater the flexibility in making company policies. The central power of top executives is the ability to deal with internal (top managers and other board directors) and external (corporate tasks and institutional environment) sources of uncertainty. Therefore, to manage this uncertainty, Finkelstein (1992) and Lee & Kao (2020) divide the CEO's power into four: ownership power, structural power, expert power, and prestige power. Expert power is reflected in the CEO's tenure because this power can arise from the knowledge and experience of the CEO. Prestige power is reflected in the education taken by the CEO. Ownership power can be seen from the company's share ownership (Sudana & Aristina, 2017; Ting et al., 2017; Wu et al., 2011). Meanwhile, structural power is not included in this research because it uses multiple leadership proxies. This proxy cannot be used in Indonesia, which adheres to a two-tier system, which means that the management and supervision functions are separate (Tjahjadi et al., 2021).

There have been many studies examining the relationship between CEO power proxies and tax avoidance, but the results are mixed and show inconsistencies. The reults of research conducted by Astutik & Venusita (2020); Lee & Kao (2020); and Han et al (2016) show that CEO tenure has a positive relationship with tax aggressiveness. Positive results are also shown by research conducted by James (2020) regarding the relationship between CEO tenure and the level of tax aggressiveness. However, the results of research conducted by Gill & Biger (2013) and Le et al. (2020) indicate that the longer the CEO's tenure, the more he is able to understand shareholder expectations and the more careful he is in making decisions. The research gap is also found in the relationship between CEO prestige power, which uses CEO education as a measurement index, and tax avoidance. The results of research conducted by Farag & Mallin (2016); Steijvers & Niskanen (2014); and Lee & Kao (2020) show that there is a positive relationship between CEO education and risk taking. The higher the education level of the CEO, the more risk-taking he will be, thus making him more daring to take risky actions such as tax avoidance. This is contrary to the results of research conducted by Astutik & Venusita (2020) that CEO education has a negative effect on tax aggressiveness. The results of research conducted by Steijvers & Niskanen (2014) and Shen & Cannella (2002) also show that CEO ownership has a negative efect on tax avoidance. Due to differences in the results of previous studies, this research attempts to fill the gap by offering a holistic exploration of the relationship between CEO power and tax avoidance, especially in the manufacturing sector companies in Indonesia. The aim is to reconcile existing gaps and provide a more coherent framework for future research and policy development regarding corporate governance and taxation.

2. THEORITICAL FRAMEWORK AND HYPOTHESIS

Upper Echelons Theory

Upper echelons theory states that the behavioral characteristics of the executive team can influence decision making as well as the financial and non-financial outputs of companies such as company performance (Hambrick & Mason, 1984). The characteristics of the executive team include cognitive base, values, age, functional experience, other career experiences, education, socioeconomic

background, share ownership, and heterogeneity of the executive team (Hambrick & Mason, 1984). According to Kabir et al. (2018), Upper Echelon Theory also states that managerial background which includes age, education, and experience can determine a company's strategic choices.

This study uses the upper echelons theory as a framework to explain the relationship between CEO tenure and CEO decision making, especially in terms of tax avoidance. CEO tenure, which indicates the length of time a CEO has held a leadership position in a company, is an important characteristic being examined. CEOs with longer tenures exert a favorable influence on a company's strategic and decision-making processes due to the accumulation of knowledge and experience over time.

The executive team has a very important role in formulating company policies. As highlighted by Hsieh et al. (2018), actions, such as tax avoidance in an organization, can be seen as a reflection of the values and preferences held by top executives. Moreover, according to Laguir and Staglianò (2014), the behavior of senior corporate executives is an important factor influencing corporate tax avoidance strategies.

Stewardship Theory

Stewardship theory focuses on managerial behavior that is pro-organization and in the interests of the organization. The CEO has a big responsibility in his work, not for personal interests but for the interests of the organization and shareholders (Davis et al., 1997). Therefore, managers will not sacrifice organizational interests for personal gain. Stewardship Theory does not consider managers as individualistic, opportunistic, or selfish agents. According to Raharjo (2007), if there is a conflict of interest between the owner and the steward, the steward will try to cooperate rather than oppose it. This is because the stewards feel they have the same interests. Behaving in line with the owner's behavior is a rational consideration because stewards pay more attention to the efforts made to achieve organizational goals.

Relationship Between CEO Expert Power and Tax Avoidance

CEO tenure is a proxy for measuring CEO expert power (Lee & Kao, 2020). In line with Upper Echelon Theory, according to Hambrick & Mason (1984), the behavioral characteristics of the executive team can influence decision making as well as the company's financial and non-financial output such as company performance. Because CEO tenure is one of the behavioral characteristics of the executive team, tenure can influence CEO decision making, one of which is tax avoidance. CEOs with longer tenure have more knowledge about the company they lead because CEO knowledge increases with experience (Lanis & Richardson, 2011). Previous research results show that CEO tenure has a positive relationship with tax avoidance (Astutik & Venusita, 2020; Chen & Zheng, 2014; James, 2020; Lanis & Richardson, 2011).

H1: CEO Expert Power (as measured by CEO tenure) has a positive relationship with Tax Avoidance

Relationship Between CEO Prestige Power and Tax Avoidance

CEO education is an important component and as an indicator to measure CEO prestige power (Wu et al., 2011). In line with stewardship theory, according to Davis et al., (1997), the CEO has a big responsibility in his work, not to fulfill personal interests but for the interests of the organization and shareholders. According to research conducted by Berger et al., (2014), this theory indicates that the higher the level of education, the more rational a person's thinking. This makes him less likely to take risks and more willing to protect the company because tax avoidance has a high risk. The results of research conducted by Amaefula et al., (2012) show that the level of education has a negative relationship with risk taking. This indicates that the level of risk aversion in executives with low education is smaller than in executives with high education. The results of research conducted by Kepramareni et al., (2020) show that the more executives who take risks, the higher the level of corporate tax avoidance. The higher the company's risk value, the greater the risk taking by executives, the more daring they are to practice tax avoidance. The results of other previous studies also show that CEO education has a positive relationship with tax avoidance (Astutik & Venusita, 2020; Sebhat & Assfaw, 2019).

H2: CEO Prestige Power (as measured by CEO education) has a negative relationship with Tax Avoidance

Relationship Between CEO Ownership Power and Tax Avoidance

CEO share ownership reflects CEO ownership power (Lewellyn & Muller-Kahle, 2012). The stewardship theory states that CEOs have a great responsibility in their work, not to serve personal interests but to act in the interests of the organization and stakeholders (Davis et al., 1997). If the CEO has shares in a company, the CEO is also a shareholder and has the same position as other shareholders so that the CEO can take part in making decisions to determine company policies, one of which is making decisions in terms of tax avoidance (Sudana & Aristina, 2017). Tax avoidance can pose risks that can harm the company's reputation (Shen & Cannella, 2002). Thus, the CEO will consider taking this risk more because the CEO is already part of the shareholders. This means that the CEO considers the company's interests more than personal interests.

Research conducted by Steijvers & Niskanen (2014) shows that when CEOs have high share ownership, they are less willing to do tax avoidance. Meanwhile, CEOs with low ownership or no ownership will be more aggressive in terms of taxes. The results of research conducted by Lee & Kao (2020) show that there is a positive relationship between CEO ownership and tax avoidance using the measurement of book-tax differences. This means that the higher the CEO ownership, the less tax avoidance is carried out. CEOs with high shareholdings try to protect the interests of shareholders by considering the impact of tax risk on the company's reputation and will later mitigate tax avoidance by reducing book-tax differences.

H3: CEO Ownership Power (as measured by CEO ownership) has a negative relationship with Tax Avoidance

3. RESEARCH METHOD

Population and Sample

The population in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period of 2015-2019. Manufacturing sector companies are chosen because they are large in scale and are the main contributors to state tax revenues. State tax revenue from the manufacturing sector in 2019 was IDR 365.39 trillion out of total state tax revenue of IDR 1545.3 trillion (DDTCnews, 2020). The selection of the period from 2015 to 2019 in this study is based on several important factors that confirm the significance of this study. First, this time period encapsulates a period of significant volatility and policy change in Indonesia's tax landscape. This started in 2015, a year when the realization of government tax revenues was far below the target set in the State Revenue and Expenditure Budget. This gap raises concerns about the effectiveness of tax collection and the need for further investigation into the factors influencing tax avoidance.

Second, the implementation of the tax amnesty policy in 2016 has the potential to change corporate tax behavior, especially in the manufacturing sector. This policy aims to encourage tax compliance and repatriation of overseas assets, making it an important event to watch closely to understand its impact on tax avoidance strategies.

In addition, the following years, from 2017 to 2019, show different levels of effectiveness in collecting tax revenues. Even though in 2017 there was an effectiveness level of 89.4% and in 2018 it reached an effectiveness level of 92%, in 2019 there was negative growth in tax revenues from the manufacturing sector, in stark contrast to the growth in the previous year of 10.9%. These fluctuations raise questions regarding the sustainability and effectiveness of tax policies and their impact on tax avoidance in the manufacturing sector.

In essence, the period from 2015 to 2019 is used in this study because it encapsulates an important time span characterized by policy shifts and significant fluctuations in tax revenues. This offers a unique opportunity to investigate the complex relationship between CEO power and tax avoidance in the context of changes in tax policies and their impact on the manufacturing sector, as one of the main contributors to the country's tax revenues. Therefore, this time frame serves as an important lens that can be used to gain a deeper understanding of tax management strategies and their implications for the Indonesian economy (DDTCnews, 2020). The purposive sampling method is used to determine the sample in this research.

Operational Definition and Measurement of Variables

The independent variable used in this study is CEO power. CEO power is the power that the CEO has and can later assist the CEO in making decisions to determine policies that will have a major impact on the company (Laguir & Staglianò, 2014). CEO power is divided into

three independent variables that have their respective measurements; expert power (expertise), prestige power (social connection), and ownership power (share ownership).

Expert power is the CEO's power which is based on the CEO's knowledge and experience that is appropriate or relevant to the company's business and has access to company information (Larcker & Tayan, 2012; Sudana & Aristina, 2017). In this study, CEO tenure is measured by the number of months the CEO has served, calculated from the first month he is appointed as CEO until the end of the fiscal year.

Prestige power is the CEO's power that comes from the positive perception that the CEO gets based on his reputation (Amedu & Dulewicz, 2018). Prestige power is measured using the CEO education (CEO_EDU) proxy or CEO education. CEO education is seen from the level of education taken by the CEO. Education is measured using a dummy variable based on the research of Wu et al., (2011), given a value of 1 if executive education is equivalent to a master's degree or more, on the contrary, it is given a value of 0 if executive education is below a master's degree.

Ownership power is the power that comes from the CEO's share ownership in the company. The size of the CEO's power depends on the number of shares he has in the company. Ownership power can be measured using the CEO ownership proxy (CEO_OWN) or the number of shares owned by the CEO in the company.

The dependent variable used in this research is tax avoidance. To determine a company's tax avoidance, two proxies are used: Effective Tax Rate (ETR) and Effective Cash Tax Rate (Cash ETR).

ETR is a comparison between income tax expense and profit before tax. This study uses ETR measurement because it is often and commonly used in research to measure a company's tax avoidance. ETR can be interpreted as the rate that actually applies to the income of a company's taxpayers. According to Hanlon & Heitzman (2010), ETR can be formulated as follows:

ETR= Income Tax Expense / Earnings Before Income Tax

Cash ETR can be defined as cash issued by the company to pay taxes for the next year divided by the current profit before tax (Dyreng et al., 2010). According to Dyreng et al., (2010) Cash ETR is good in showing tax avoidance actions because Cash ETR has no effect on changes in estimates such as tax protection. The use of Cash ETR is expected to identify tax avoidance activities carried out by the company. According to Hanlon & Heitzman (2010), although the measurement periods for Cash ETR and EBT are different, this approach is adopted for several compelling reasons. First, EBT represents a company's pre-tax income for a given financial year, providing insight into its profitability before accounting for tax liabilities. However, EBT does not reflect actual tax payments made in the same year. On the other hand, Cash ETR reflects the ratio of current tax payments to EBT in a particular fiscal year. Cash ETR is included in this study with the aim of introducing a real-time perspective on tax behavior, taking into account the direct tax consequences of a company's financial activities.

Second, the use of Cash ETR helps uncover variations in tax avoidance strategies that may not be apparent if relying solely on EBT. This makes it possible to check whether the company postpones tax payments to future periods or engages in practices that result in current tax payments being lower compared to pre-tax profits. Cash ETR can be calculated using the following formula:

CETR= Corporate Income Tax Paid (t+1) / Earnings Before Income Tax (t)

ETR and Cash ETR have the opposite relationship with tax avoidance. The higher the ETR value and the company's Cash ETR, the higher the tax expense that must be paid by the company, and can result in a lower level of tax avoidance. ETR and Cash ETR are measured by multiplying (-1), in order to make the relationship between ETR and Cash ETR with tax avoidance unidirectional. So the TA formula for ETR becomes as follows:

$$TA = \frac{\text{Income Tax Expense}}{\text{Earnings Before Income Tax}} X(-1)$$

TA is used to measure cash ETR, with the following formula:

$$TA = \frac{\text{Corporate Income Tax Paid}}{\text{Earnings Before Income Tax (t)}} X(-1)$$

The control variables used in this study are profitability, firm size and leverage. This study uses the control variable because it

has been shown to have a consistent effect in several previous studies (Laguir & Staglianò, 2014; Sudana & Aristina, 2017; Wu et al., 2011). The first control variable used is profitability. Profitability is measured by using ROA (Return On Assets). The profitability formula used according to Fernández-Rodríguez et al., (2019) is as follows:

ROA = Earning After Tax / Total Asset

The second control variable is firm size. The company size formula used is as follows:

Size = Ln (Total assets)

The third control variable is leverage which is a ratio to measure the company's ability to fulfill its obligations in the form of long-term debt. According to Wahyuni et al., (2019) leverage can be calculated using the following formula:
LEV = Total debt / Total assets

Analysis Techniques
This research uses a quantitative approach focusing on the use of statistical data analysis techniques. SPSS 20 software is used to accommodate the data analysis in this study. Furthermore, the analytical technique used is descriptive statistical analysis e. Pearson correlation to see the strength and linear relationship between two variables. Meanwhile, for hypothesis testing, this study uses multiple linear regression tests. Furthermore, the regression test uses a t-test with a significance level of 10%. The test model applied in this study is formulated in the following equation:

$$TA_{it} = \alpha + \beta 1 CEO\_TENit + \beta 2 CEO\_EDUit + \beta 3 CEO\_OWNit + \beta 4 ROAit + \beta 5 SIZEit + \beta 6 LEVit + \varepsilon$$

Explanation

TA_{it}	: Tax avoidance (TA) of Company in year t as measured by ETR and CETR
α	: Constant
$\beta 1$-$\beta 6$	: Regression coefficient
CEO_TEN_{it}	: CEO education (CEO_EDU) of company i in year t
CEO_EDU_{it}	: CEO education (CEO_EDU) of company i in year t
CEO_OWN_{it}	: Shareholding of CEO (CEO_OWN) of company in year t
$SIZE_{it}$	: Firm size i in year t
ROA_{it}	: Profitability of company in year t
LEV_{it}	: Leverage of company in year t
ε	: error

4. DATA ANALYSIS AND DISCUSSION

This study aims to empirically prove the relationship between CEO power and tax avoidance. The subjects in this study are manufacturing companies listed on the Indonesia Stock Exchange for the period from 2015 to 2019 and meet the predetermined sample criteria. Overall there are 301 observations in this study. More detail can be seen in Table 1.

Table 1
Descriptive Statistical Results

Criterion	2015	2016	2017	2018	2019	Total
Research population	142	144	156	166	182	790
Companies that do not publish annual reports.	(2)	(3)	(5)	(4)	(8)	(22)
Companies that do not use the Indonesian Rupiah as currency.	(29)	(29)	(29)	(31)	(31)	(149)
Companies that incur losses	(26)	(21)	(23)	(26)	(22)	(118)
Companies with ETR and Cash ETR outside the interval $0 < x < 1$	(10)	(18)	(20)	(21)	(22)	(91)
Companies lacking complete data	(22)	(16)	(24)	(17)	(30)	(109)
Research Sample	53	57	55	67	69	301

Source: Data Processed

Table 2
Descriptive Statistical Results

	N	Minimum	Maximum	Mean	Std. Deviation
TA ETR	301	-0.5046	-0.0589	-0.259853	0.0641150
TA CETR	301	-0.9036	-0.0026	-0.281440	0.1409703
CEO_TEN	301	2	576	123.33	137.619
CEO_EDU	301	0	1	0.32	0.466
CEO_OWN	301	0.0000	0.3732	0.020334	0.0582045
ROA	301	0.0025	0.5267	0.088448	0.0812631
SIZE	301	11.7496	19.6790	14.745654	1.6308798
LEV	301	0.0769	0.9332	0.402064	0.1850660

Source: Data Processed

Table 3
Descriptive Statistical Results CEO_EDU Variable

	Frequency	Percent
0 (Under Master's Degree)	206	68.4
1 (Master's Degree Equivalent or More)	95	31.6
N	301	100.0

Source: Data Processed

Descriptive Statistics

Descriptive statistical analysis is useful for describing each variable used. CEO power consists of CEO prestige power, CEO expert power, and CEO ownership power, which are then used as independent variables. Meanwhile, tax avoidance serves as the dependent variable. The control variables used in this research include profitability, company size, and leverage. Detailed descriptive statistics can be seen in Table 2 and Table 3.

Pearson Correlation

Based on the results of the Pearson correlation test, it can be seen that CEO tenure (CEO_TEN) has a positive relationship with tax avoidance (TA CETR) with a significance level of 5%. CEO education has a positive relationship with tax avoidance (TA ETR). CEO share ownership (CEO_OWN) is not significant to TA ETR and TA CETR. The control variable of Return on Assets (ROA) has a positive relationship with tax avoidance (TA ETR) with a significance level of 1%, but it not significant on tax avoidance (TA CETR). Firm size (SIZE) is not significant to TA ETR and TA CETR. Leverage (LEV) has a positive relationship with TA ETR and TA CETR with a significance level of 1%.

Multiple Linear Regression Analysis

The results of multiple linear regression analysis show that CEO_TEN has a significant positive relationship with TA ETR and TA CETR. The relationship between CEO_TEN and TA ETR has a coefficient value of 0.000063 ($t = 2.279$; $p < 0.05$) while the relationship between CEO_ TEN and TA CETR has a coefficient value of 0.0002 ($t = 2.983$; $p < 0.01$). The regression results indicate that CEO tenure has a positive relationship with tax avoidance proxies (ETR and CETR). Therefore, the first hypothesis **(H1)** is supported. CEO expert power, as proxied by CEO tenure, has a positive relationship with tax avoidance.

CEO_EDU has a significant positive relationship with TA ETR and TA CETR. The relationship between CEO_EDU and TA ETR has a coefficient value of 0.017 ($t = 2.103$; $p < 0.05$) while the relationship between CEO_EDU and TA CETR has a coefficient value of 0.037 ($t = 2.027$; $p < 0.05$). The regression results indicate that CEO education has the same consistency of results for both tax avoidance proxies (ETR and CETR). Therefore, the second hypothesis (**H2) is not supported**. CEO prestige power has a positive relationship with tax avoidance.

CEO_OWN has a significant negative relationship with TA ETR and TA CETR. The relationship between CEO_OWN and TA ETR has a coefficient value of -0.144 ($t = -2.268$; $p < 0.05$) while the relationship between CEO_ OWN and TA CETR has a coefficient value of -0.342 ($t = -2.367$; $p < 0.05$). The regression results show that CEO ownership also has the same consistency of results for the two tax

avoidance proxies (ETR and CETR). Therefore, the third hypothesis (**H3**) is supported. CEO ownership power has a negative relationship with tax avoidance.

ROA has a significant positive relationship with TA ETR, with a coefficient value of 0.129 (t = 2.903; p < 0.01). However, ROA has no significant relationship with TA CETR. SIZE has an insignificant relationship with TA ETR and TA CETR. LEV has a significant negative relationship with TA ETR and TA CETR. The relationship between LEV and TA ETR has a coefficient value of -0.075 (t = -3.868; p < 0.01), while the relationship between LEV and TA CETR has a coefficient value of -0.113 (t = -2.567; p <0.05).

The coefficient of determination (R2) test in the multiple linear regression analysis for TA ETR in Table 4 shows a value of 0.127. This indicates that CEO tenure, CEO education, CEO ownership, profitability, firm size and leverage are able to explain variations in tax avoidance (TA ETR) of 0.127 or 12.7%, while the remaining 0.873 or 87.3% are explained by other variables outside independent variables and control variables used in this study.

Coefficient of determination (R2) test in multiple linear regression analysis for TA CETR shows a value of 0.071. This indicates that CEO tenure, CEO education, CEO ownership, profitability, firm size, and leverage can explain variations in tax avoidance (TA CETR) of 0.071 or 7.1%, while the remaining 0.929 or 92.9% is explained by other variables outside independent variables and control variables used in this study

Discussion

Relationship Between CEO Expert Power and Tax Avoidance

In this study, CEO expert power uses CEO tenure (CEO_TEN) as a measurement index. CEO tenure regression results for the two tax avoidance proxies show the same consistency of results. These results are in line with the first hypothesis (H1) that CEO expert power has a significant positive relationship with tax avoidance, so it can be concluded that the first hypothesis (H1) is accepted. CEO tenure is one of the factors that affect tax avoidance. One of the personal characteristics that is considered to influence executives in committing tax

Table 4
Multiple Regressions Analysis

	(1) TA ETR	(2) TA CETR
CEO_TEN	0.000063**	0.0002***
	(2.279)	(2.983)
CEO_EDU	0.017**	0.037**
	(2.103)	(2.027)
CEO_OWN	-0.144**	-0.342**
	(-2.268)	(-2.367)
ROA	0.129***	0.084
	(2.903)	(0.833)
SIZE	0.002	-0.001
	(1.092)	(-0.105)
LEV	-0.075***	-0.113**
	(-3.868)	(-2.567)
Constant	-0.288***	-0.263***
	(-8.462)	(-3.407)
R-squared	0.127	0.071
N	301	301

*** p<0.01, ** p<0.05, * p<0.1
Source: Data Processed

avoidance is tenure because the characteristic can influence individual executives in the decision-making process.

It can be said that the longer the CEO serves in a company, the more the company will take tax avoidance actions. CEOs who have a longer tenure will enrich their experience and expertise so that they have more opportunities to develop connections internally and externally in a wider area (Daily & Johnson, 1997). CEOs who have served in a company for a long time will be more daring to take bigger risks because they already have the experience to make decisions in dealing with these risks.

The findings of this study are in accordance with the upper echelons theory which states that certain characteristics possessed by company leaders can have an impact on company performance, one of which is tenure. Orens & Reheul (2013) state that when the CEO tenure increases, it will make the CEO more confident in taking tougher challenges for his financial decisions such as taking tax avoidance actions. Based on the upper echelons theory, the knowledge and experience of the CEO will develop with the variety of work experiences that the CEO has.

The findings of this study are in line with the results of several previous studies. The results of research conducted by James (2020) show that tenure has a positive effect on the level of tax aggressiveness. Long-serving CEOs have more information and experience about the company, which will help in finding opportunities to make effective tax savings. Moreover, the results of research conduced by Astutik & Venusita (2020) show that the longer the tenure of the CEO in a company, the higher the tax aggressiveness. CEOs who have been in their positions for a long time have more knowledge, skills and experience which can be used to influence decision making and analyze the condition of the company. Lanis & Richardson (2011) also state that CEOs with high tenure have greater experience in implementing aggressive tax strategies.

Relationship between CEO Prestige Power and Tax Avoidance

In this study, CEO prestige power uses CEO education (CEO_EDU) as a measurement index. CEO education regression results for the two tax avoidance proxies show the same consistency of results. The results are contrary to the second hypothesis (H2), so it can be concluded that the second hypothesis (H2) is rejected. The higher the CEO's education in a company, the higher the rate of tax avoidance. In addition, the knowledge and experience of the CEO will increase prestige power and are considered capable of controlling uncertainty in the corporate environment (Fang et al., 2020; Finkelstein, 1992). A good education is considered to be able to help CEOs understand and deal with company problems and can be used as a person's intellectual base to determine how executives make managerial decisions (D'Aveni & Kesner, 1993). A CEO's higher education can provide better knowledge to consider the risks taken and the benefits obtained in decision making. This could be the reason that CEO education is positively related to tax avoidance.

The findings in this study are contrary to stewardship theory which states that the CEO has a great responsibility in his work, not to fulfill personal interests but to act in the interests of the organization and shareholders. In addition, the CEO who is a steward (servant) for shareholders will be motivated by the need to act in the interests of the company. Thus, the higher the level of education, the less a person will take risks and are more willing to protect the company against actions that have a high level of risk. However, the results of this research show that the higher the CEO's education level, the higher the CEO's intellectual abilities which can be used to determine appropriate tax avoidance strategies. Tax avoidance actions are considered to provide more benefits for the company and the CEO will also benefit from this. With higher education, a CEO will be able to develop his potential. So, the higher the CEO's education, the broader his skills and knowledge will be in carrying out his duties.

The findings of this study are in line with the results of several previous studies. The results of research conducted by Beber & Fabbri (2012) show that CEOs with higher education are more confident to take higher risks. In addition, this also causes the CEO to be a risk taker in the decisions he makes. The results of research conducted by Farag & Mallin (2016) also show that CEO education has a positive relationship with risk taking. The higher the education level of the CEO, the more risk-taking he will be, which makes him more daring to take risky actions, such as tax avoidance.

Relationship Between CEO Ownership Power and Tax Avoidance

In this study, CEO ownership power uses CEO share ownership (CEO_OWN) as a measurement index. The CEO ownership regression results for the two tax avoidance proxies show the same consistency of results. These results are in line with the third hypothesis (H3) that CEO ownership power has a significant negative relationship with tax avoidance, so it can be concluded that the hypothesis (H3) is accepted.

If the CEO owns shares in the company, this does not necessarily make the CEO act differently in determining strategy. By owning shares in a company, the CEO is also a holder. This makes his position the same as other shareholders so that he can participate in making decisions. Thus, the CEO no longer runs the company for his personal interests but for the interests of the company and shareholders, which can further reduce agency costs (Sudana & Aristina, 2017). The size of the CEO's power depends on the number of shares he has in the company, so that the CEO's power and share ownership by the CEO have a unidirectional relationship. The greater the ownership of the CEO, the more likely he will prioritize the interests of the company. In addition, the higher the ownership of the CEO, the better the reputation of the CEO (Shen & Cannella, 2002). Meanwhile, tax avoidance can pose a risk that endangers the company's reputation and the image of corporate social responsibility (Lee & Kao, 2020). Therefore, to maintain the company's reputation and image of corporate social responsibility, CEOs are more likely to consider tax avoidance.

The results of this study are consistent with stewardship theory which states that CEOs have a great responsibility in their work, not to serve personal interests but act in the interests of the organization and stakeholders (Davis et al., 1997). The CEO is part of the shareholders if he owns shares in the company. Therefore, the CEO will do his best to run the company in achieving its main goal: the welfare of the shareholders. If the CEO can achieve this goal, the shareholders as owners will be satisfied with the CEO's performance.

The findings of this study are in line with the results of several previous studies. The results of research conducted by Lee & Kao (2020) show that the higher the CEO ownership, the less tax evasion is carried out. CEOs with high shareholdings try to protect the interests of shareholders by considering the impact of tax risk on the company's reputation and will later mitigate tax avoidance by reducing book-tax differences. The results of research conducted by Steijvers & Niskanen (2014) also show that the higher the share ownership, the lower the desire to do tax avoidance.

5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

Based on the results of the analysis and discussion, it can be concluded that CEO expert power, as measured by CEO tenure (CEO_TEN), has a positive relationship with tax avoidance. CEOs with longer tenures will be bolder to take bigger risks because they already have the experience to make decisions in dealing with these risks and make them bolder in taking tax avoidance actions. Prestige power, as measured by CEO education (CEO_EDU), has a positive relationship with tax avoidance. Meanwhile, CEO ownership power, as measured by CEO share ownership (CEO_OWN), has a negative relationship with tax avoidance.

Limitation

The limitation of this research lies in the fact that many company annual reports on the Indonesia Stock Exchange (IDX) do not include the CEO's educational background and CEO share ownership, making the data collected minimal. Therefore, in this study, CEO power prestige is measured by CEO education and CEO ownership power is measured by CEO share ownership.

Suggestion

Based on the results of this research, it is recommended that the government pay more attention to CEO power which can influence the level of tax avoidance so that it can help detect and minimize tax avoidance actions carried out by companies. For further research, it is recommended to increase the scope of research data in other industrial sectors so that the research results do not only represent the manufacturing sector. In addition, future research can also add measurement indices for CEO power, such as CEO interlock, which can be used as a proxy for CEO prestige power or other proxies that can be used as indices to measure CEO expert power, CEO prestige power and CEO ownership power.

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