



The influence of CEO power on corporate tax avoidance with the institutional ownership as a moderating variable

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Abstract

The research discusses the influence of CEO power on corporate tax avoidance practices with institutional ownership as a moderating variable. The population of this research is non-cyclical consumer sector companies listed on the Indonesia Stock Exchange in 2020-2022. Sample determination was carried out using purposive sampling technique. The samples collected were 51 companies with an observation period of 3 years, resulting in a total of 153 samples. The hypothesis was tested using Moderated Regression Analysis (MRA) with SPSS 25. The CEO has an important role in making decisions related to company strategy, including tax management. This research focuses on the Consumer Non Cyclical sector in Indonesia with the aim of examining the influence of CEO power on tax avoidance with the role of institutional ownership in moderating this relationship. The research results show that CEO power influences corporate tax avoidance practices, where CEOs with greater power tend to have lower levels of tax avoidance. In addition, institutional ownership moderates the relationship between CEO power and corporate tax avoidance practices, indicating the important role of institutional shareholders in monitoring CEO tax-related actions. This research is expected to provide a better understanding of the relationship between CEO power, institutional ownership, and corporate tax avoidance practices in Indonesia.

Keywords: Tax avoidance, CEO power, institutional ownership

Introduction

Taxes are one of the main sources of income for the state in financing various development programs and public services. In Indonesia, the tax system is regulated by Law Number 28 of 2007 which regulates the obligation of taxpayers to make contributions in accordance with applicable regulations. However, the practice of tax avoidance is an issue that continues to emerge in the world of taxation, where companies tend to look for legal loopholes to reduce the tax burden they have to pay. The power of the CEO in a company has a very important role in making strategic decisions, including in terms of tax management. Previous research has shown that CEO power can influence corporate tax avoidance practices (Oussii & Klibi, 2023^[17]). In addition, institutional ownership can also play an important role in monitoring CEO actions regarding taxes (Chen *et al.*, 2014).

However, research on the relationship between CEO power, institutional ownership and tax avoidance practices is still limited, especially in developing countries like Indonesia. Therefore, this research aims to fill this knowledge gap by focusing on Consumer non Cyclical sector companies listed on the Indonesia Stock Exchange in the 2020-2022 period. By considering the complexity of the tax environment in Indonesia, including different regulations, investment policies, and capital market dynamics, this research is expected to provide a better understanding of how CEO power and institutional ownership influence corporate tax avoidance practices in Indonesia. It is hoped that the implications of this research can contribute to increasing tax transparency and compliance in Indonesia. Through this research, it is hoped that it can provide valuable insight for stakeholders regarding corporate tax avoidance practices, as well as become a basis for developing more effective policies in overcoming the problem of tax avoidance in Indonesia.

Literature review

1. Basic of Theory

a. Upper Echelon Theory

Upper Echelon Theory states that the characteristics of the highest individual in an organization, such as the CEO, can influence company decision making and strategy (Hambrick & Mason, 1984; Hambrick, 2007). Strategic decisions, such as tax planning, signal better organizational outcomes in financial markets to increase net profits, which can result in higher net profits. The formation of company value can be influenced by managers with individual management strengths, corporate governance has the function of helping managers rather than controlling them (Aliani 2014)^[2].

b. Agency Theory

Agency theory describes the relationship between owners (principals) and agents (managers) in a company. In the context of tax avoidance, agency theory can explain the conflict of interest between company owners who want maximum profits and managers who may tend to carry out tax avoidance practices for personal interests. Institutional ownership can act as a monitoring mechanism in reducing agency conflicts related to tax avoidance practices (Jensen and Meckling, 1976)^[13].

c. Tax Avoidance

Tax avoidance is an action taken to reduce tax obligations using deficiencies in the applicable law (Ngadiman N., 2014). The efforts made are to optimize the tax burden through tax avoidance which diverts transactions that are not considered or not subject to taxation.

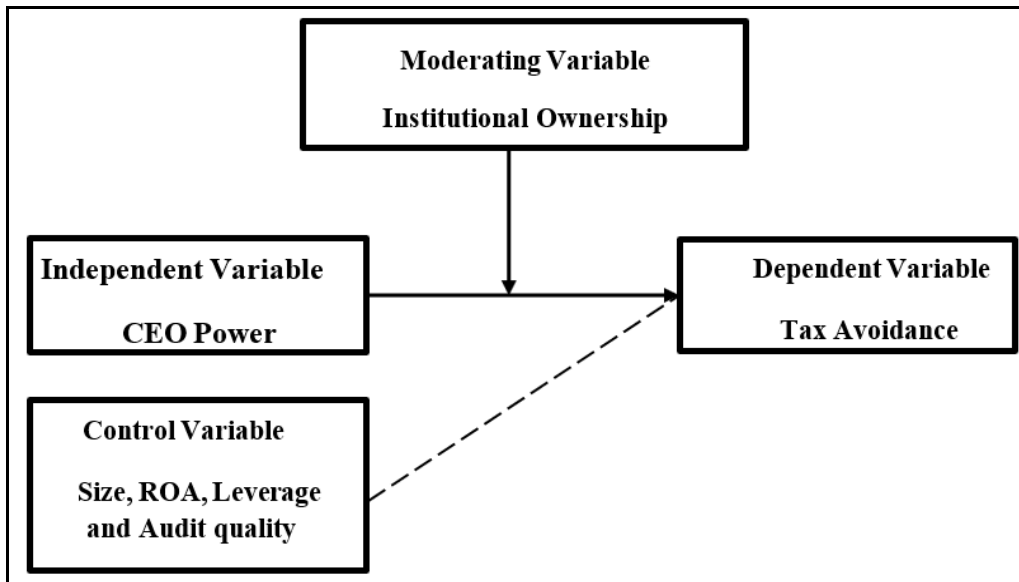
d. CEO Power

CEO power can be defined as the CEO's strength in overcoming obstacles to achieve desired outcomes. Apart from using his power, the CEO can also optimize a number of factors, such as experience, expertise, skills and knowledge, in the decision-making process for the company (Jiang, Zhu & Huang, 2013).

e. Institutional Ownership

Institutional ownership is the percentage of shares in a company owned by financial entities or institutions such as banks, investments, insurance companies and pension funds, except for subsidiaries and other entities that have special connections (associated companies and affiliated companies) (Siregar & Utama, 2005).

2. Research framework



3. Research hypothesis

1. The influence of CEO power

According to research findings, CEO power involves factors such as organizational structure, ownership, and expert power (Sheikh, 2019; Han *et al.*, 2016; Tang *et al.*, 2016). Agency theory describes that a strong CEO (agent) uses his power to fulfill desired goals in many cases inconsistent with shareholders (Tien, Chen, & Chuang, 2013). The power possessed by the CEO can be significant in shaping the company's strategic decisions with lower resistance from the board of directors regarding the relationship between CEO structural power and tax avoidance, the perspective can be interpreted in two ways, several studies show that CEOs tend to avoid bad reputations related to tax avoidance activities (Finkelstein & Hambrick, 1996).

2007). Assuming that high institutional ownership can moderate the impact of CEO power on tax avoidance practices. Strong institutional ownership can provide more effective control over company management decisions related to tax avoidance, thereby reducing the possibility of aggressive tax avoidance practices influenced by CEO power (Karinda *et al.*, 2022)

2. Moderating institutional ownership

Institutional ownership is seen as an external element in the corporate governance structure that has an important role in reducing agency costs between management and ownership (Khan *et al.*, 2017; Bird and Karolyi, 2017; Khan *et al.*, 2017). Agency theory (Jensen & Meckling, 1976) ^[13] shows that institutional investors monitor a company's strategic decisions based on the CEO's capacity and expertise. (Jatana, 2023; Boussaidi & Hamed-Sidhom, 2021) assumes that institutional investors limit tax avoidance practices because they are associated with higher risks. Upper Echelon theory can provide an understanding that the characteristics of the highest individual in an organization, such as the CEO, have a significant influence on strategic decision making and company performance (Hambrick & Mason, 1984; Hambrick,

Research methodology

1. Population and Sampling

The population used in this research are consumer non cyclicals sector companies or non-primary consumption sectors listed on the Indonesia Stock Exchange and displaying data on the Bloomberg database 2020-2022. The purposive sampling technique is used to take samples, namely determining the sample according to the research criteria.

2. Analysis method

1. Descriptive Statistical Analysis

Ghozali (2021) explains that descriptive statistical analysis is a process that provides a descriptive description of the data by calculating the mean value, maximum value, minimum value, and standard deviation.

2. Classical Assumption Test

The classic assumption test is a standard procedure in statistics which is usually carried out before further analyzing the data that has been collected (Ghozali, 2021).

a. Normality Test

Normality testing is a test that is used to assess whether or not the research variables are normally or abnormally distributed.

b. Multicollinearity Test

The multicollinearity aims to determine whether or not there is a significant attachment between the independent variables in the regression model.

c. Heteroscedasticity Test

Heteroscedasticity test is a statistical method used to determine whether or not there is a difference in variance from the residuals of one observation to another in the regression model.

d. Autocorrelation Test

Autocorrelation test is a statistical test used to determine whether there is an attachment between confounding errors from a linear regression model in one period (period t) by the previous period (period t-1).

3. Moderated Regression Analysis (MRA)

To determine the relationship between CEO's power to avoidance taxes and institutional ownership as moderation variables, this research Using Moderate Regression Analysis (MRA) (Ghozali, 2021). There are three parts of testing carried out in the analysis Moderated Regression Analysis (MRA), namely the F test, t test and coefficient test determination (adjusted R²)

1. Data Analysis Results

1. Descriptive Statistical Analysis Results

the sample size is 153 people and you can see the minimum, maximum and mean values of each variable. Data the distribution is normal because the standard deviation is not more than the value average or meaning that no major errors occur. Standard deviation is a reflection of very high deviation, so distribution of variable data that shows normal results and those that do not causes bias.

2. Classical Assumption Test Results

a. Normality Test Result

This study utilizes the Kolmogrov-Smirnov test The results of this research can be interpreted as data the residuals tested have met the normality assumption because the values Kolmogrov Smirnov is far from significant at 0.05 or 0.153 over value standard normal distribution 0.05 (0.153>0.05).

b. Multicollinearity Test Results

The multicollinearity test results in the table show that the variables with a total VIF ≤ 10 and a tolerance value ≥ 0.1 , then you can It is said that the regression model is multicollinearity free.

c. Heteroscedasticity Test Results

In conducting the heteroscedasticity test, this research utilized the scatterplot method.

Discussion

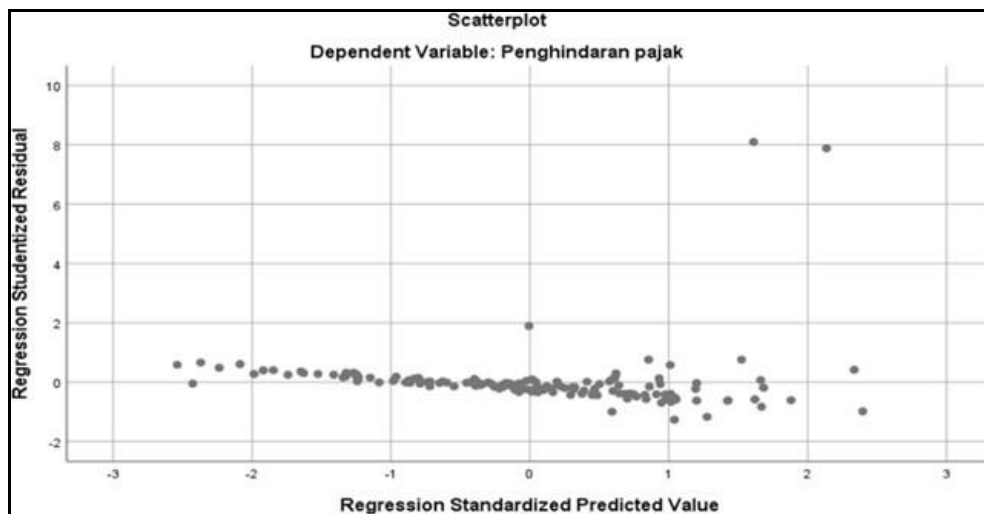


Fig 1: Heteroscedasticity Test Results

From Fig 1 shows points representing residues randomly distributed across below and above the number 0 on the Y axis and forming a certain pattern. Results This indicates that there is no heteroscedasticity in the regression model.

d. Autocorrelation Test Results

In this research, in order to identify the presence of autocorrelation, testing was carried out using the Durbin-Watson method:

Table 1: Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.302 ^a	.091	.053	.31457	2.010

Source: Secondary data (processed), 2024

From this table it can be concluded that the calculation of the 4-Du value in get 2.2104. Thus it can be analyzed if the value of d exceeds du and below 4-du, then H0 fails to be rejected and can be said to be in the regression model there is no autocorrelation.

Moderated Regression Analysis (MRA)

the value of the coefficient of determination of the model regression is 0.047. This result means that as many as 4.7% of the variables Tax avoidance can be explained by the CEO Power and Ownership variables Institutional, ROA, Size, Leverage and Audit Quality. The remaining 95.3% other causes are explained.

Simultaneous Significance Test (Statistical Test)

Table 4.5, it can be analyzed that the regression model has an F value 2.047 and a significance of 0.053. The F test results are significant because they exceed 0.05, then it could be said that the variables CEO Power, Power X Institution, Ownership Institutional, ROA, Leverage, size and audit quality do not influence tax evasion.

Individual Parameter Significance Test (t Statistical Test)

- a. The CEO power variable has a negative effect on tax avoidance because it has a significance value above 0.05 with a coefficient of -0.090. H1 proposed is that CEO power has an influence negative on tax avoidance. The test results cannot be rejected (H1 accepted). This shows that the CEO's power is real has a negative influence on corporate tax avoidance accordingly with the proposed hypothesis.
- b. The moderating variable Institutional Ownership (Z) is the moderator relationship between CEO power (X) and tax avoidance (Power x Instit). Based on these results the coefficient for the interaction between power CEO and Institutional Ownership is -0.002 with the t-statistic value 0.013 and a sig value of less than 0.05 for the interaction variable. These results shows if the significance value is below 0.05 the hypothesis of an effect moderation between power and institutions is unacceptable (rejected). This shows that the interaction between CEO power and ownership institutions have a negative influence in moderating the relationship between CEO power and tax avoidance practices in context study.

Conclusion

1. The CEO power variable has a negative effect on tax avoidance company. It can be concluded that the CEO has great power tend to have lower levels of tax avoidance because CEOs will be more careful in making tax-related decisions to maintain the company's reputation and the interests of shareholders shares. Variables of CEO power, such as structural dimensions, ownership shares and executive expertise can influence the way the CEO is perceived and managing corporate tax aspects.
2. Institutional ownership moderates the relationship between power CEO with corporate tax avoidance practices. Can be concluded that institutional ownership does not have a moderating effect significant impact on the relationship between CEO power and practice corporate tax avoidance. This shows that it is important the role of institutional shareholders in monitoring CEO actions related to taxes and reducing corporate tax avoidance practices.

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