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Rethinking Corporate Governance and Tax Avoidance, Evidence from Indonesia's Basic Materials Firms

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ABSTRACT

Objectives: *This study examines the effects of profitability, financial distress, firm size, CEO narcissism, board size, and female directors on tax avoidance among basic materials firms listed on the Indonesia Stock Exchange during 2021-2024.*
Methodology: *This study uses secondary data from annual reports and financial statements of 13 firms, resulting in a balanced panel of 52 observations, and estimates pooled OLS with robust standard errors.*
Findings: *Firm size has a negative association with tax avoidance, while board size and female directors have positive associations; profitability, financial distress, and CEO narcissism are not statistically strong.*
Conclusion: *The findings provide preliminary evidence that governance characteristics do not influence tax avoidance in a uniformly restrictive manner. Their effects appear to depend on monitoring effectiveness, coordination quality, and the substantive decision-making authority of board members. Because the study covers only 13 firms and 52 firm-year observations, the results should be interpreted cautiously and should not be generalized beyond the sampled basic materials firms.*
Practical implications: *Companies should strengthen audit-committee oversight, clarify board responsibilities for tax-risk management, increase the substantive involvement of female directors in strategic committees, and improve tax-governance disclosure in annual and sustainability reports.*

Keywords: *Tax Avoidance; Effective Tax Rate; CEO Narcissism; Corporate Governance; Basic Materials Sector.*

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INTRODUCTION

In general, companies engage in tax avoidance as a form of tax planning to reduce tax expenses without violating tax regulations (Sihono & Febyansyah, 2023). This practice is an important issue because of the complexity of its mechanisms and its economic impact, as tax avoidance can harm the state because taxes are the main source of financing for government expenditure. More specifically, tax avoidance arises through the use of applicable tax incentives and provisions, thereby creating differences between profit before tax and tax payable (Muhmad et al., 2024). One case of tax avoidance in the paper industry sector involved PT Toba Pulp Lestari, which allegedly manipulated export data to shift profits to an overseas affiliate, thereby reducing the tax burden payable in Indonesia (Laia, 2020). As a result, the state was estimated to face potential tax revenue losses of up to IDR 1.9 trillion (Tempo, 2020). The magnitude of state losses caused by tax avoidance indicates that this practice is influenced by various factors, including profitability, financial distress, firm size, CEO narcissism, board size, and the presence of female directors (Kalbuana et al., 2023; Gunaasih, 2021).

The basic materials sector provides a scientifically relevant setting for examining corporate tax avoidance because firms in this sector generally operate with capital-intensive production processes, substantial fixed assets, complex cost structures, and considerable exposure to commodity price fluctuations. Many companies also engage in export–import transactions, related-party transactions, and the procurement of raw materials across different jurisdictions. These characteristics may create both legitimate tax-planning opportunities and greater complexity in determining taxable income, depreciation expenses, transfer prices, and deductible operating costs. At the same time, fluctuations in commodity prices and working-capital requirements may increase managerial pressure to preserve cash flows. Therefore, the relationship between corporate governance, executive characteristics, and tax avoidance may operate differently in basic materials firms compared with less capital-intensive sectors.

Companies undertake tax avoidance efforts to maximize profit. How well a business converts its assets into earnings is a useful indicator of its profitability (Syahzuni & Florencia, 2023). Firms with very strong financial performance often engage in tax avoidance strategies to reduce their tax liabilities, which tend to increase along with their income (Darsani & Sukartha, 2021; Gunaasih, 2021). Prior studies show mixed findings: Hendayana et al. (2024) and Gunaasih (2021) show a positive direction, whereas Shubita (2024) shows a negative effect on tax avoidance.

Financial distress occurs when a company has difficulty meeting its financial obligations due to deteriorating economic conditions, which may increase bankruptcy risk and encourage tax avoidance to maintain operations (Kalbuana et al., 2023). When facing financial pressure, companies may manipulate accounting policies to temporarily increase operating income to meet debt obligations, and they also tend to minimize tax expenses as an effort to maintain liquidity and avoid bankruptcy (Mahardhika & Surjandari, 2022; Kamayanti et al., 2023). Studies by Mahardhika & Surjandari (2022) and Kamayanti et al. (2023) show a positive correlation between financial distress and corporate tax avoidance, whereas Ariff et al. (2023) find a relationship without explicitly explaining the direction of the effect.

Firm size is classified based on total assets into small, medium, and large firms (Sianturi & Febyansyah, 2024). Large-scale firms with greater resources and more stakeholders tend to be able to conduct effective tax planning and have the potential to engage in tax avoidance, whereas small firms face limitations (Anggreini & Kusuma, 2024; Kalbuana et al., 2023). In addition, the larger the firm, the more complex its transactions, thereby increasing opportunities

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for tax avoidance (Gunaasih, 2021). Mahardhika & Surjandari (2022) and Gunaasih (2021) find a positive effect of firm size on tax avoidance, whereas Sari et al. (2021) and Thayyib (2025) find a negative effect.

CEO narcissism can harm companies because narcissistic CEOs tend to prioritize personal interests to enhance their self-image (Megahed, 2024; Rahayu & Wahyudi, 2025). Excessive self-confidence and a tendency to underestimate others make CEOs willing to take risks, including tax avoidance, to maintain an image of success (Muhlis et al., 2024; Kalbuana et al., 2023). Araújo et al. (2021) and Kalbuana et al. (2023) demonstrate that CEO narcissism has a positive effect on tax avoidance; similarly, Pandapotan et al. (2024) provide evidence of a relationship, although they do not explicitly explain the direction of the effect.

Board size plays a role in minimizing conflicts between owners (principals) and management (agents), as well as aligning their objectives (Kalbuana et al., 2023). An excessive number of board members may create tax avoidance practices because coordination and monitoring become less effective (Pham et al., 2024). Conversely, a proportional board can suppress opportunistic behavior and increase transparency (Rahayu & Wahyudi, 2025). Chandra & Saputra (2024) and Kalbuana et al. (2023) show a positive effect of board size on tax avoidance, whereas Chen et al. (2025), Pham et al. (2024), and Salhi et al. (2020) find a negative effect.

Female directors at the strategic level play a role in improving performance and reducing tax avoidance practices because of cautious behavior and lower risk tolerance toward manipulative actions (Kalbuana et al., 2023; Susilowati et al., 2022). The presence of female directors also improves transparency and monitoring effectiveness (Mai et al., 2025). Kalbuana et al. (2023), Mai et al. (2025), and William (2024) state that female directors have a negative effect on corporate tax avoidance. In contrast, Suleiman (2020) demonstrates a positive effect.

Although previous studies have examined profitability, financial distress, firm size, CEO narcissism, board size, and female directors as determinants of tax avoidance, the findings remain inconsistent. These inconsistencies may arise because most studies assess the variables independently and pay limited attention to how managerial incentives, executive characteristics, and governance mechanisms operate simultaneously. Financial conditions may create incentives for managers to reduce tax payments, while CEO characteristics may influence their willingness to accept the risks associated with tax-planning decisions. However, the extent to which these incentives are translated into corporate tax strategies may depend on the effectiveness of board monitoring. This issue is particularly important in the Indonesian basic materials sector because of its capital intensity, heterogeneous asset structures, complex transactions, and sensitivity to commodity cycles. Accordingly, this study examines financial, executive, and governance factors within one empirical model while acknowledging that their effects may depend on the quality of corporate monitoring.

Agency theory and upper echelons theory are integrated in this study to explain tax avoidance as the outcome of managerial incentives, executive discretion, and governance oversight. Agency theory explains why managers may adopt tax-avoidance strategies to preserve cash flows, maintain reported performance, or pursue interests that are not fully aligned with those of shareholders and other stakeholders. Upper echelons theory complements this explanation by arguing that managerial responses to these incentives are influenced by the personal characteristics and cognitive orientation of top executives.

Within this integrated framework, profitability, financial distress, and firm size represent organizational conditions that shape the incentives and opportunities for tax planning. CEO narcissism represents an executive characteristic that may influence the willingness to adopt riskier or more aggressive strategies. Board size and female representation reflect governance arrangements that may strengthen or weaken the monitoring of managerial decisions. Thus, tax avoidance is not viewed solely as the result of financial pressure or executive personality, but as an outcome emerging from the interaction between managerial incentives, executive discretion, and the substantive effectiveness of governance mechanisms.

Although the present study does not statistically test interaction or moderating effects, the framework recognizes that CEO characteristics may become more influential when board oversight is weak. Similarly, the presence of female directors may influence tax decisions only when they have sufficient representation, strategic authority, and active involvement in audit, risk, or supervisory functions. This integrated perspective provides a more comprehensive explanation than treating each determinant as an independent predictor of tax avoidance.

This study fills a research gap on the determinants of tax avoidance by using a quantitative panel data approach that examines financial factors, firm characteristics, leadership psychology, and governance in one integrated model (Kalbuana et al., 2023; Gunaasih, 2021). The novelty lies in its focus on the basic materials sector, which has unique characteristics and has rarely been examined, as well as in testing CEO narcissism, which is highly relevant in Indonesia because of concentrated ownership structures and centralized leadership authority (Kalbuana et al., 2023). In addition, profitability is added to this study from previous research because a company's ability to generate earnings strongly influences its incentives and strategies for tax avoidance, while prior findings remain inconsistent. This study aims to analyze the effects of profitability, financial distress, firm size, CEO narcissism, board size, and female directors on tax avoidance among basic materials sector companies listed on the IDX during 2021-2024, a period of post-pandemic recovery and changes in tax regulation. The results are expected to enrich the accounting and taxation literature and provide practical benefits for companies and regulators in improving compliance and accountability.

LITERATURE REVIEW

Agency Theory

Agency theory, first introduced by (Jensen & Meckling, 1976), discusses the contractual relationship between company owners (principals) and management (agents), who are given authority to manage the company. In this relationship, conflicts of interest often arise because managers tend to prioritize personal interests, while shareholders seek to increase firm value (Bash & Zoghlami, 2023). This conflict of interest is also reflected in tax policy, where management may engage in tax avoidance to reduce the company's tax burden, maintain earnings stability, and preserve the image of financial performance (Rahmayani et al., 2023). Governance mechanisms, such as board size and the involvement of female directors, can function as monitoring tools to limit managers' personal interests (Kalbuana et al., 2023). In addition, financial distress and large firm size can strengthen management's incentive to engage in tax avoidance as a strategy to maintain cash flow and optimize tax planning (Alhady et al., 2021; Anggreini & Kusuma, 2024).

Upper Echelons Theory

Upper echelons theory explains how corporate strategic decisions and performance outcomes are largely influenced by the personal characteristics of top management, such as experience, values, and personality (Hambrick & Mason, 1984). In other words, an organization is a reflection of its leader, so leadership style will influence company policy (Araújo et al.,

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2021). CEOs with narcissistic traits tend to be more willing to make aggressive decisions, one of which is engaging in corporate tax avoidance practices (Megahed, 2024). Meanwhile, the presence of female directors is often associated with greater caution and stronger ethics, which can reduce corporate tax avoidance practices (Mai et al., 2025). Board diversity can improve monitoring effectiveness, which ultimately affects corporate compliance in meeting tax obligations (Pham et al., 2024).

Tax Avoidance

Hanlon & Heitzman (2010) view tax avoidance as a corporate strategy to reduce explicit taxes through actions that range from legal to nearly illegal, with the level of aggressiveness determined by the controlling party. In general, tax avoidance includes various activities that reduce the amount of tax borne by a company (Dyreng et al., 2008). The traditional view states that managers will engage in tax avoidance when the marginal benefits obtained exceed the marginal costs borne by the company (Hasan et al., 2021). According to Duhoon & Singh (2023), the implementation of tax avoidance behavior in an organization is influenced by several factors, such as agency conflicts, social considerations, and the legitimacy of tax avoidance decisions. Tax avoidance is carried out by using certain financial reporting methods that remain within regulations, with the aim of reducing the company's tax burden (Sihono & Febyansyah, 2023).

Profitability

An important measure for assessing a company's ability to generate profit from its operations is profitability (Karimah & Mahroji, 2023). Profitability indicates a company's success in earning profit and describes the efficiency of assets in carrying out the company's operational activities during a certain period (Manapa & Yulazri, 2024). Moreover, profitability functions as an indicator of company success because it reflects the extent to which a company can convert its investments into profit (Syahzuni & Florencia, 2023). A high level of profitability will increase corporate tax obligations because higher profit is proportional to the tax burden that must be paid (Darsani & Sukartha, 2021; Fernández-Rodríguez & Martínez-Arias, 2012). ROA is a profitability metric that evaluates how well an organization converts its assets into cash. Efficient corporate asset management leads to higher ROA, which in turn improves company success (Hendayana et al., 2024).

Financial Distress

The condition in which a company faces liquidity difficulties, as indicated by a decline in its ability to meet obligations to creditors, is referred to as financial distress (Mahardhika & Surjandari, 2022). This condition is usually characterized by liabilities exceeding assets and profitability, which limits cash flow, makes it difficult to run operations effectively, and leads to lower profit or even losses (Kalbuana et al., 2023). Companies in this condition tend to engage in higher tax avoidance because tax savings provide additional cash needed to maintain business continuity (Ariff et al., 2023).

Firm Size

Any policy made by large companies tends to receive more public attention than policies made by small companies because large organizations often have more diverse stakeholders (Kalbuana et al., 2023). Firm size describes the classification of entities into large, medium, and small based on total assets, capital, profit, market value, and sales volume. Larger

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companies tend to have opportunities to manage or minimize taxes, and firm size is usually measured using the natural logarithm of total assets (Paraswati & Purwaningsih, 2024). Firm size is believed to influence how a company manages and fulfills its tax obligations, making it one of the factors that can lead to tax avoidance practices (Worokinasih & Imamah, 2025).

CEO Narcissism

CEO narcissism describes a condition in which a corporate leader has excessive self-confidence and a high self-image that seeks recognition and admiration, thereby influencing the company's strategic direction (Araújo et al., 2021; Jaoua & Mohamed, 2021). Emmons (1987) explains that narcissism includes tendencies to stand out, feel superior, and use interpersonal relationships manipulatively to strengthen self-identity. Narcissistic CEOs usually show dominant behavior, are willing to take risks, and tend to distrust input from others in managing the company (Pandapotan et al., 2024). In line with upper echelons theory, the personality and characteristics of top executives, including narcissism, are reflected in organizational policies and strategies, and therefore can influence tax avoidance practices and corporate financial policies (Megahed, 2024). Because narcissistic CEOs tend to prioritize business success and interests, they are more encouraged to make risky decisions, one of which is implementing tax avoidance strategies to improve company performance and self-image (Sari et al., 2024). These characteristics make CEO narcissism an important factor that can determine how a company implements operational and tax policies to maintain its image and reputation in the eyes of the public (Kalbuana et al., 2023).

Board Size

Board size refers to the total number of directors serving on a company's board, which is one of the important mechanisms of corporate governance (Salhi et al., 2020). Studies by Chen et al. (2025), Hoseini et al. (2019), and Ibrahim et al. (2025) show that the number of board members affects work dynamics and the effectiveness of monitoring functions; a larger board brings greater diversity of experience and expertise, but an overly large board can instead create coordination problems and reduce monitoring effectiveness. Board size determines the strength of monitoring over management, thereby helping ensure that company policies are aligned with shareholder interests while preventing practices such as tax avoidance (Pham et al., 2024).

Female Directors

Female representation on the board of directors, or gender diversity, refers to the extent to which women are involved or present on a company's board of directors (Weichen & Mayburov, 2025). Female directors hold a strategic role because they tend to have high ethical standards and are more cautious in decision-making than men, as well as avoiding actions that may damage reputation (Ramadhan et al., 2023). Increasing the proportion of women at the strategic level is expected to strengthen corporate governance and contribute to improved performance (Kalbuana et al., 2023). Women's cautiousness and ethical orientation also help minimize tax avoidance practices (William, 2024).

Hypothesis Development

Profitability and Corporate Tax Avoidance

One measure of corporate profitability is ROA, which shows how well a business is able to convert its assets into cash (Fahmi & Naibaho, 2025). The higher the profit earned by a company, the greater the tax it bears, thereby encouraging management to adopt tax avoidance

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strategies to reduce the tax burden (Rahmayani et al., 2023). Based on agency theory, managers tend to act in their own interests by implementing tax avoidance to maintain after-tax profit and the image of company performance (Jensen & Meckling, 1976). In line with this argument, prior studies find a positive relationship between profitability and tax avoidance, where higher corporate profit indicates a higher likelihood that the company engages in tax avoidance (Arfi Anjani Khusna & Agus Sihono, 2024; Hendayana et al., 2024; Paraswati & Purwaningsih, 2024; Gunaasih, 2021; Syahzuni & Florencia, 2023). Based on the arguments from previous studies described above, the following hypothesis is proposed:
H1: Profitability has a positive effect on corporate tax avoidance.

Financial Distress and Corporate Tax Avoidance

Financial distress experienced by a company can increase the likelihood of bankruptcy (Mahardhika & Surjandari, 2022). In agency theory, financial pressure can increase the divergence of interests between owners and managers, thereby encouraging managers to take opportunistic actions to maintain the company's financial stability (Jensen & Meckling, 1976). This condition generally occurs when a company's liabilities exceed the wealth (assets), size, or profit of its industry (Kalbuana et al., 2023). Under such circumstances, managers tend to apply strategies to maintain business operations by preserving liquidity, one of which is through tax avoidance practices (Alhady et al., 2021).

As shown by Dang & Tran (2021), Kalbuana et al. (2023), and Kamayanti et al. (2023), a positive relationship is found between financial distress and corporate tax avoidance because when companies face financial distress, the costs of engaging in corporate tax avoidance become significant. Based on the arguments from previous studies described above, the following hypothesis is proposed:
H2: Financial distress has a positive effect on corporate tax avoidance.

Firm Size and Corporate Tax Avoidance

Based on agency theory (Jensen & Meckling, 1976), larger firms face more complex conflicts of interest between owners and management because managers have broader room to act opportunistically. Firm size is believed to influence how management manages and fulfills tax responsibilities, making it a factor that can encourage tax avoidance practices (Worokinasih & Imamah, 2025). In relation to tax avoidance practices, large-scale companies tend to have greater tax responsibilities (Teguh & Nyale, 2024). However, companies with large assets also have more experienced resources and tax planning support, placing them in a more strategic position to conduct tax planning through tax avoidance strategies (Anggreini & Kusuma, 2024). Thus, companies are able to find loopholes in every transaction as a form of tax avoidance (Gunaasih, 2021).

This result is consistent with Afifah & Wahyudi (2024), Sianturi & Febyansyah (2024), Mahardhika & Surjandari (2022), Kalbuana et al. (2023), Gunaasih (2021), and Santoso & Purwaningsih (2024), which show a positive effect between firm size and corporate tax avoidance. Based on the arguments from previous studies described above, the following hypothesis is proposed:
H3: Firm size has a positive effect on corporate tax avoidance.

CEO Narcissism and Corporate Tax Avoidance

CEOs with narcissistic traits tend to overestimate their skills and personal success (Wibowo & Fatikasari, 2024). Based on upper echelons theory, the personal characteristics of

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top management influence corporate strategic decisions because individual behavior is reflected in organizational actions (Hambrick & Mason, 1984). This trait can encourage individuals to commit legal violations, including aggressive tax avoidance efforts to minimize the company's tax burden (Kalbuana et al., 2023; Pandapotan et al., 2024).

As demonstrated by Araújo et al. (2021), Kalbuana et al. (2023), Megahed (2024), and Rahayu & Wahyudi (2025), there is a positive effect between CEO narcissism and tax avoidance because the higher the level of CEO narcissism, the greater the tendency to engage in tax avoidance. Based on the arguments from previous studies described above, the following hypothesis is proposed:

H4: CEO narcissism has a positive effect on corporate tax avoidance.

Board Size and Corporate Tax Avoidance

Based on agency theory, a larger board of directors is able to improve monitoring effectiveness over management and thus reduce the tendency of companies to adopt tax avoidance strategies (Jensen & Meckling, 1976). A larger number of board members can reduce monitoring effectiveness and create opportunities for management to implement aggressive tax avoidance practices, whereas a smaller board can improve coordination and internal control (Bash & Zoghlami, 2023; Pandapotan et al., 2024; Pham et al., 2024).

This result is consistent with Chandra & Saputra (2024), Ibrahim et al. (2025), Kalbuana et al. (2023), and Rahayu & Wahyudi (2025), which show that there is a positive effect between board size and corporate tax avoidance because corporate tax avoidance often increases along with board size. Based on the arguments from previous studies described above, the following hypothesis is proposed:

H5: Board size has a positive effect on corporate tax avoidance.

Female Directors and Corporate Tax Avoidance

Upper echelons theory suggests that the demographic and professional characteristics of top managers influence corporate strategic decisions. Female directors are frequently associated with greater caution, ethical sensitivity, stakeholder orientation, and lower tolerance for excessive corporate risk. From this perspective, a higher proportion of female directors may strengthen board monitoring and reduce aggressive tax-planning practices.

Nevertheless, the influence of female directors may not always be substantive. Female representation may remain symbolic when women constitute only a small proportion of the board, do not occupy strategic positions, or have limited authority in audit, risk-management, or tax-policy decisions. Under these conditions, increasing numerical representation may not automatically change existing corporate tax strategies. Previous findings showing both negative and positive relationships therefore indicate that the effect of female directors is context-dependent. Based on the dominant theoretical expectation that diversity strengthens ethical oversight, the following hypothesis is proposed:

H6: Female directors have a negative effect on corporate tax avoidance.

The research model can be illustrated as follows:

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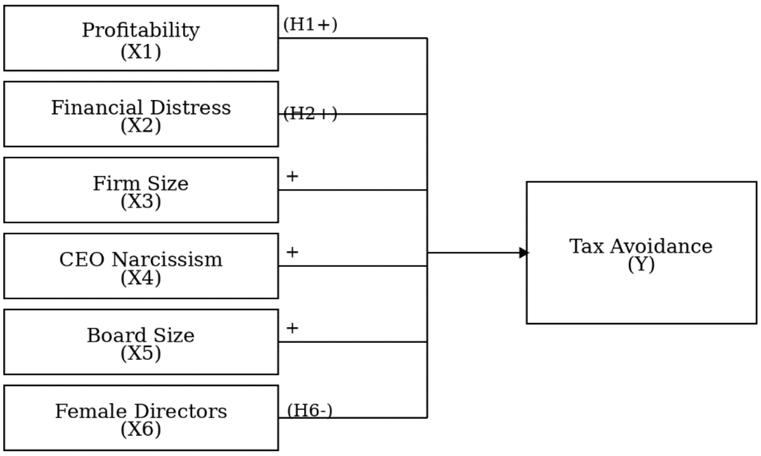
Figure 1. Research Model



Source: Authors' elaboration (2026).

METHOD

This study conducts quantitative testing using secondary data. It involves seven variables and designates tax avoidance as the dependent variable, while the others (profitability, financial distress, firm size, CEO narcissism, board size, and female directors) are independent variables. Tax avoidance is proxied by Tax Avoidance (TA), namely 1 minus the effective tax rate (1 - ETR). ETR is still calculated using the current-year effective tax rate (ETR) indicator. ETR is obtained by dividing tax expense by revenue or profit before tax (Kalbuana et al., 2023). TA values range from 0 to 1. The greater the TA value, the higher the indication of tax avoidance; conversely, the smaller the TA value, the lower the indication of tax avoidance. Profitability is represented by ROA, namely the ratio of a company's net income to its total assets. ROA is a measure of a business's return on investment (Gunaasih, 2021). Financial distress is measured by Financial Distress (FD), which is the negative value of the Altman Z-Score using the formula: Z-Score = $1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 0.999X_5$, so that a higher FD value indicates greater financial pressure (Dang & Tran, 2021). To represent firm size, the natural logarithm of total assets is used as a proxy for the firm size ratio (Sari et al., 2021). CEO narcissism is then proxied through analysis of the size of the CEO photo included in the annual report using a numerical scoring scale from 1 to 5: a score of 1 if there is no CEO photo, 2 if the CEO is photographed with other executives, 3 if the photo is less than half a page, 4 if the photo is more than half a page, and 5 if the photo occupies a full page (Araújo et al., 2021). The number of members of the board of directors in a company is an indirect indicator of the board size ratio (Pandapotan et al., 2024). Furthermore, female directors are proxied by the ratio of the number of female directors to the total number of board members (Kalbuana et al., 2023).

The research data were obtained from the financial statements of thirteen basic materials sector companies listed on the IDX for four years (2021-2024) and arranged in panel data form. The thirteen sample companies were selected from a population of 52 companies using purposive sampling with the following criteria: companies must have been actively listed on the Indonesia Stock Exchange throughout 2021 to 2024 and must not have conducted an initial public offering during that period. In addition, the sampled companies must not have experienced delisting or temporary suspension of share trading. Companies were also required to regularly publish complete and continuous annual reports and financial statements during the

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research period. The published documents had to contain all information required in this study, including data on net income, total assets, financial components for calculating the Altman Z-Score, photos of company leaders, board of directors composition, proportion of female directors, tax expense, and profit before tax.

The population of this study consisted of 52 basic materials companies listed on the Indonesia Stock Exchange. Purposive sampling was applied to ensure that each company had complete and comparable information for the 2021–2024 observation period. Companies were excluded when they were not continuously listed during the study period, conducted an initial public offering after the beginning of the observation period, experienced delisting or prolonged trading suspension, did not publish complete annual reports and financial statements, or did not disclose the information required to measure all research variables. After applying these criteria, 13 companies met all requirements. The four-year observation period produced a balanced panel consisting of 52 firm-year observations.

Because the final sample represents only 13 of the 52 companies in the population, the findings should be interpreted as evidence from firms with complete and consistently available data rather than as evidence representing all Indonesian basic materials companies.

Data Analysis Technique

The data were analyzed using panel data regression. Before estimation, the data were verified by checking the completeness of observations, consistency of units, ETR value range, and consistency of variable proxy directions. Because lower ETR indicates higher tax avoidance (Hanlon & Heitzman, 2010), the dependent variable in the estimation is expressed as TA = 1 - ETR. This transformation is important so that regression coefficients can be interpreted directly as changes in tax avoidance, not changes in the effective tax rate.
The empirical model used is:

TAit = alpha + beta1ROAit + beta2FDit + beta3SIZEit + beta4CEONARCit + beta5BODSIZEit + beta6FEMDIRit + epsilonit

Note: TA is tax avoidance, ROA is profitability, FD is financial distress calculated from the negative value of the Altman Z-Score, SIZE is the natural logarithm of total assets, CEONARC is the CEO narcissism score, BODSIZE is the number of members of the board of directors, and FEMDIR is the proportion of female directors. Robust standard errors are used to reduce the risk of bias due to heteroskedasticity in a relatively small panel sample. Additional testing with year dummies is used as a robustness check to examine whether the main results are sensitive to variation across periods.

Table 1. Operational Definition and Variable Measurement

No	Variable	Variable Definition	Formula	Scale
1	Tax Avoidance (Y)	Corporate tax avoidance is a legal effort to reduce tax burdens by utilizing provisions permitted under tax regulations, measured using the effective tax rate (ETR). (Kalbuana et al., 2023)	*TA = 1 - (Tax Expense / Profit Before Tax)*	Ratio
2	Profitability (X1)	Profitability is a ratio that describes a company's efficiency in generating earnings through return on total assets used, measured by Return on Assets (ROA). (Gunaasih, 2021)	*ROA = Net Income / Total Assets*	Ratio

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No	Variable	Variable Definition	Formula	Scale
3	Financial Distress (X2)	Financial distress describes a company's financial pressure through a comparison between total liabilities and total equity	*Z-Score = -1 x (1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 0.999X5)*	Ratio
4	Firm Size (X3)	Firm size describes the scale of a company based on total assets, which are transformed using the natural logarithm to stabilize the data (Sari et al., 2021)	*Company Size = Ln Total Assets*	Ratio
5	CEO Narcissism (X4)	CEO narcissism is measured based on analysis of their photo and personal message in the company annual report (Araujo et al., 2021)	*Using a numerical scoring scale (1-5) based on the size of the CEO photo:* *1 = No CEO photo* *2 = CEO photo with other executives* *3 = CEO photo less than half a page* *4 = CEO photo more than half a page* *5 = Full-page CEO photo*	Ordinal
6	Board Size (X5)	Board size describes the number of individuals serving as members of the board of directors in a company (Pandapotan et al., 2023)	*Board size = Board of directors*	Ratio
7	Female Directors (X6)	Female directors describe the presence of women on the board of directors through the proportion of female directors to the total members of the board of directors (Kalbuana et al., 2023)	*FD = Number of female board of directors / Number of members of the board of directors*	Ratio

Source: Authors' elaboration (2026).

RESULTS AND DISCUSSION

Results

Based on the Excel data check, the research sample consists of 13 companies over four years of observation, forming a balanced panel of 52 observations. All companies have complete data on ETR, ROA, financial distress, firm size, CEO narcissism, board size, and female directors. ETR values range from 0.0195 to 0.7928, thus remaining within the 0 to 1 range. After being transformed into Tax Avoidance = 1 - ETR, the tax avoidance values range from 0.2072 to 0.9805.

Table 2. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
Tax Avoidance (1-ETR)	52	0.7407	0.1424	0.2072	0.9805
ETR	52	0.2593	0.1424	0.0195	0.7928
ROA	52	0.0620	0.0461	0.0011	0.1504
Financial Distress (-Z)	52	-3.8915	2.0720	-8.2026	-1.1212
Firm Size	52	28.8387	1.6761	26.3242	32.7678
CEO Narcissism	52	2.8269	0.5134	2.0000	4.0000
Board Size	52	5.0000	1.9302	2.0000	8.0000
Female Directors	52	0.2640	0.1035	0.1250	0.5000

Source: Data processed by the authors (2026).

The descriptive statistics table shows that the average Tax Avoidance value is 0.7407. This figure should not be read as the percentage of tax paid, but rather as the inverse index of ETR. In other words, the higher this index value, the lower the company's ETR and the higher the indication of tax avoidance. The average ROA of 0.0620 indicates that the profitability of the sample is relatively moderate. The female directors variable has an average of 0.2640,

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indicating that the proportion of women on the board of directors is not yet dominant but is already present in most of the governance structures of the sampled companies.

Multicollinearity Test
The multicollinearity test was conducted using the Variance Inflation Factor (VIF). All VIF values are below 10, and none exceeds 3, indicating that the model does not show serious multicollinearity. Thus, the six independent variables can still be used jointly in the regression model.

Table 3. Variance Inflation Factor (VIF)

Variable	VIF
ROA	1.814
Financial Distress	2.237
Firm Size	2.033
CEO Narcissism	1.337
Board Size	2.578
Female Directors	2.852

Source: Data processed by the authors (2026).

Regression Results
The main estimation results using pooled OLS with robust standard errors show that the model has an R-squared of 0.710 and an adjusted R-squared of 0.671. This value indicates that approximately 67.1 percent of the variation in tax avoidance in the sample can be explained by the combination of profitability, financial distress, firm size, CEO narcissism, board size, and female directors. The F-test shows that the model is simultaneously significant, so the model is appropriate for empirical discussion.

Table 4. Regression Results

Variable	Coeff.	Robust SE	z	p-value	Notes
Constant	2.4860	0.4240	5.862	0.000	
ROA	0.3447	0.2920	1.180	0.238	Not significant
Financial Distress	0.0093	0.0060	1.518	0.129	Not significant
Firm Size	-0.0762	0.0170	-4.372	0.000	Significant (-)
CEO Narcissism	0.0534	0.0320	1.644	0.100	Marginal
Board Size	0.0323	0.0140	2.363	0.018	Significant (+)
Female Directors	0.5802	0.1830	3.166	0.002	Significant (+)

Source: Data processed by the authors (2026).

As an additional check, testing with year dummies produces relatively consistent coefficient directions for firm size, board size, and female directors. However, when the model includes firm fixed effects, most variables lose significance. This condition is reasonable given that the number of observations is only 52 and several governance variables, such as board size and the proportion of female directors, tend not to change much within a company over the four-year period. Therefore, the interpretation of the results should be positioned as relevant initial findings but still requires caution.

Discussion
Profitability has a positive but insignificant coefficient on tax avoidance. The positive direction means that companies with higher ROA tend to have higher indications of tax avoidance, but the statistical evidence is not yet strong enough. This finding can be explained

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by the fact that more profitable companies do have a larger tax base, but at the same time they are also under stronger public and tax authority scrutiny. Therefore, profitability does not always automatically encourage aggressive tax avoidance. This explanation is consistent with the argument that tax avoidance is a decision based on a comparison of benefits and costs (Hanlon & Heitzman, 2010).

Financial distress also shows a positive but insignificant direction. Conceptually, companies experiencing financial pressure have an incentive to preserve cash through tax payment efficiency. However, in this sample, financial pressure is not proven to be a main factor. A possible explanation is the characteristics of the basic materials sector, which is strongly influenced by commodity price cycles, asset structures, and working capital needs. Thus, financial pressure may be reflected more in financing strategies or operational efficiency, rather than directly in tax avoidance. Previous literature shows that the relationship between financial distress and tax avoidance may depend on a company's capacity to bear risk and compliance costs (Dang & Tran, 2021).

Firm size has a significant negative effect on tax avoidance. This finding does not support the initial hypothesis, which predicted a positive effect. The result indicates that larger companies in the sample tend to have lower indications of tax avoidance. The most plausible explanation is political cost and reputational risk. Large companies have higher public visibility, a broader stakeholder base, and a greater likelihood of monitoring by regulators, investors, and creditors. Therefore, although large companies have resources for tax planning, they also face higher reputational costs if their tax strategies are perceived as too aggressive (Kalbuana et al., 2023).

CEO narcissism shows a positive direction and is at the marginal level, but is not significant at the conventional 5 percent level. This direction is consistent with upper echelons theory, which views organizational decisions as a reflection of top leaders' characteristics (Hambrick & Mason, 1984). CEOs with a strong self-image and a willingness to take risks may be more motivated to pursue strategies that enhance the image of company performance, including through tax efficiency. However, the lack of strong significance indicates that the influence of CEO characteristics may not stand alone, but instead interacts with monitoring mechanisms, ownership structure, and the company's compliance culture (Araújo et al., 2021).

Board size has a significant positive effect on tax avoidance. This finding supports the hypothesis that a larger board does not always improve monitoring effectiveness. In certain contexts, a larger number of directors can create coordination problems, slow decision-making, and open room for unclear division of responsibility. Therefore, the function of the board cannot be viewed only from the number of members, but also from the quality of monitoring, independence, tax competence, and coordination effectiveness. Governance literature also shows that an overly large board can reduce monitoring effectiveness (Pham et al., 2024).

Female directors have a significant positive effect on tax avoidance, which differs from the initial hypothesis that predicted a negative effect. This result needs to be interpreted carefully. The positive finding does not mean that female directors encourage opportunistic actions; rather, it may indicate that the presence of women on the board in this sample is not yet sufficient to substantively change corporate tax strategies. The average proportion of women is only 26.4 percent, so its influence may not have reached a critical mass. In addition, female directors may be present in the formal structure without having the same substantive influence in tax decisions. Therefore, this result strengthens the argument that gender diversity needs to be analyzed together with the quality of participation, strategic position, and decision-making power, not merely as a numerical ratio (Kalbuana et al., 2023; Ramadhan et al., 2023).

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CONCLUSION

This study examines the relationships between profitability, financial distress, firm size, CEO narcissism, board size, female directors, and tax avoidance among 13 Indonesian basic materials companies during 2021–2024. Within this limited sample, firm size is negatively associated with tax avoidance, whereas board size and female directors show positive associations. Profitability, financial distress, and CEO narcissism do not demonstrate statistically strong effects.

These findings indicate that formal governance characteristics do not necessarily translate directly into effective tax oversight. A larger board may experience coordination and responsibility-allocation problems, while female representation may have limited influence when female directors remain a minority or do not occupy strategically relevant positions. The findings therefore support an interpretation of corporate governance based on substantive authority, expertise, participation, and monitoring quality rather than numerical composition alone.

Nevertheless, the results should not be generalized to all basic materials companies or other industrial sectors. The analysis covers only 13 firms and 52 firm-year observations over a four-year period. The small sample limits statistical power, while the short observation period and limited within-firm variation may affect the stability of panel estimates. Accordingly, the findings should be regarded as preliminary sector-specific evidence.

Future research should use a larger sample, a longer observation period, and alternative tax-avoidance measures such as cash effective tax rates, book–tax differences, and long-run effective tax rates. Subsequent studies may also examine interaction effects between CEO narcissism and board oversight, as well as the strategic positions, expertise, independence, and committee membership of female directors.

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