Narcissistic Leadership in an Era of Uncertainty: Insights on Tax Aggressiveness Among Indonesian Company CEOs

Anisa Kusumawardani[1*], Anis Thurmudi[b], Noor Salim[c], Andi Kartika[d], Indri Saputri[e]
[a*]STIE TOTALWIN, Jawa Tengah, Indonesia, nsawardani@stietotalwin.ac.id
[b] STIE TOTALWIN, Jawa Tengah, Indonesia, anis@stietotalwin.ac.id
[c] STIE TOTALWIN, Jawa Tengah, Indonesia, noorsalim@stietotalwin.ac.id
[d] STIE TOTALWIN, Jawa Tengah, Indonesia, andikartika@stietotalwin.ac.id
[e] STIE TOTALWIN, Jawa Tengah, Indonesia, sindriwidya@gmail.com

*Correspondence: corresponding author email

Abstract
Post-pandemic, tax aggressiveness in Indonesia has become a complex issue as companies navigate a VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) environment, facing new risks while attempting to recover financial performance. The volatile nature of global economic conditions, combined with uncertainty around regulatory changes and ambiguous market signals, has heightened the complexity of corporate tax strategies. Government policies related to tax incentives, while intended to support recovery, have the potential to create loopholes for companies to manipulate financial data in order to avoid tax obligations. This study aims to analyze the effect of narcissistic CEO leadership on corporate tax aggressiveness in the context of this VUCA environment. The sample includes all companies listed on the Indonesia Stock Exchange (IDX) during the 2023 period. A simple linear regression analysis is employed to test the relationship between CEO narcissism, as the independent variable, and tax aggressiveness, as the dependent variable. The results of this study are expected to provide insight into how leadership characteristics, particularly narcissism, can influence corporate tax strategies in uncertain and complex conditions. The findings reveal that narcissistic CEOs do not significantly influence tax aggressiveness, offering an important perspective on leadership and decision-making in Indonesia's volatile post-pandemic business landscape. This research contributes to a deeper understanding of how tax elements are integrated into each stage of the accounting process, including recognition, measurement, valuation, presentation, and disclosure.

Article History:

Keywords:
Narcissistics; Tax Aggressiveness; CETR; Accounting Behavior

1. Introduction

It is worth noting that the pandemic situation has also contributed to the emergence of the VUCA era, which is a global phenomenon that has had a significant impact on Indonesia. VUCA represents a technological advancement that has influenced industrial development. We have witnessed previous industrial revolutions, beginning with the first industrial revolution and progressing to the fourth industrial revolution, which is arguably the most significant. During the fourth industrial revolution, the VUCA ecosystem has witnessed considerable advancement (Saleh, 2020). VUCA itself is an acronym for Volatility, Uncertainty, Complexity and Ambiguity. Volatility is volatility or change. Uncertainty is the uncertainty that occurs in the environment. Complexity is the complexity of many things that are difficult to solve. While Ambiguity is confusion. Business people who are faced with the VUCA era must have an agile response so as not to fall behind which will cause business failure. When the business world is hit by the VUCA era, almost all business entities must adapt to the VUCA era (Kusumawardani, 2022). A country's fiscal and economic sustainability is highly dependent on several key factors including: State Revenue, Debt Management, Efficient Government Expenditure, Economic Growth, Sustainable Fiscal Policy, Political and Legal Stability, External Resilience. The main sources of state revenue usually come from taxes, duties, excises, dividends from state-owned enterprises, and other revenues. Sufficient revenue to finance state spending is an important foundation.

A country's fiscal and economic viability depends heavily on its tax structure. Taxes are not only a major source of government revenue, but also a policy tool to influence the behavior of the economy, especially large corporations. Over the past few decades, tax policy has become one of the main tools used by governments to promote economic growth, stability and competitiveness. Tax incentives represent a widely utilized policy instrument for the attainment of these objectives. In Indonesia, tax incentives have been provided as part of the National Economic Recovery (PEN) program, which aims to reduce the financial burden of companies during challenging times caused by the pandemic. The government's objective is to assist companies in maintaining their viability, safeguard employment, and stimulate overall economic expansion. It is anticipated that tax incentives will prove instrumental in enabling companies to survive. In response to the tax incentives offered, over 451,026 companies have submitted applications, with approximately 214,097 of these being approved. Trade constituted 47% of the incoming applications, while manufacturing accounted for 19%, and construction and real estate each comprised 7% of the remainder (Putri, 2020). This shows that the national economic recovery program is going well, and many companies are wisely utilizing these tax incentives to overcome their financial burden.

During the pandemic, many companies have faced significant liquidity issues due to falling revenues and rising operating costs. Tax incentives, such as reduced or delayed tax payments, provide breathing space for companies to maintain cash flow. With the removal of such incentives, companies may face greater financial pressure, especially if the economic recovery has not fully stabilized. This pressure may prompt companies to seek alternative means, including tax avoidance or aggressive tax planning, to reduce their tax liabilities and maintain liquidity. Once tax incentives are removed, companies may be more motivated to explore loopholes in the tax system or utilize more aggressive tax planning strategies. This could include the use of complex corporate structures, transfer pricing, or moving profits to lower-tax jurisdictions. Large companies with sufficient resources for tax consultancy could potentially use this approach to legally reduce their tax liabilities, but it tends to go against business ethics. Tax evasion has been the case in almost all countries in the world, especially after the Covid-19 pandemic. One of them is in South Korea, where the number of companies and individuals involved in tax evasion has increased as seen from the increase in the value of unpaid taxes by 2 times throughout 2018/2019. The increase that occurred was 18% and of the amount imposed, 220 billion won was still uncollected (Kyung-min, 2020). It would seem that, in addition to South Korea, countries in Continental Europe, the Americas, and countries in the Middle East have also experienced an increase in tax avoidance, mainly through profit shifting of multinational companies. François et al., (2023) stated that tax authorities need quality information on the ownership structure of multinational companies to better understand profit shifting schemes. Francois et al.'s research is complementary to studies that show other dimensions of tax sensitivity heterogeneity, both across countries and across firms (Johannesen et al., 2020) depending on the quality of their management (Bilicka Daniela Scur et al., 2021) or the size of the company (Wier & Erasmus, 2023).

Corporate leadership, particularly the role of the CEO, is a very important factor in determining the extent to which a firm takes aggressive steps to manage its tax liabilities. In the academic literature, CEO narcissism is often associated with a firm's tendency to take greater risks, including tax aggressiveness. Several studies examined the effects of narcissism on risk-taking behavior, using both self-reported and behavioral measures (Buelow & Brunell, 2018). CEOs with narcissistic traits tend to exhibit a tendency toward overconfidence in their abilities, which may render them more susceptible to engaging in high-risk but potentially short-term beneficial actions, including those pertaining to tax planning. Narcissism is one of the dark triad of personality characteristics and is one of the most relevant characteristics for organizational researchers. Executives who have narcissistic traits tend to overestimate their performance relative to their actual performance, thus it is closely related to the definition of overconfidence. Therefore, it can be reasonably assumed that narcissistic individuals tend to have high levels of overconfidence in general (Brunzel, 2021). It is crucial to acknowledge that, in addition to their leader-like attributes, narcissists also exhibit a range of detrimental characteristics. These include a deficiency in empathy, exploitative tendencies, arrogance, an inability to cope with criticism, and aggressive behaviors. These traits contribute to the negative impact that the actions of narcissistic leaders can have on the value of their companies (Czarna & Nevicka, 2019). Research by Bivianti et al., (2022) stated that the characteristics of company executives have a positive effect on tax avoidance. However, the CEO's background such as knowledge, education level, and experience also affect the way they lead the company, as mentioned in the study of Harymawan et al., (2023). Research conducted by Pratomo et al., (2022), Doho & Santoso (2020), and Kalbuana et al., (2023) provides results that CEO Narcissism has no effect on tax aggressiveness. On the other hand, research by Saputri & Kusumawardani (2024) states that CEOs who have narcissistic characteristics affect the tax aggressiveness of companies indexed in ISSI. In light of the existing literature and research gaps, a study was conducted on the phenomenon of narcissistic leadership in the context of uncertainty, with a particular focus on the experiences of CEOs in Indonesian companies.

Signaling Theory

In 1973, Michael Spence put forth the concept of signaling theory, which can be defined as a branch of study that examines the use of signals in economic contexts. The theory of signals makes use of the information asymmetry that exists between investors and companies. This can sometimes make it challenging for investors to accurately evaluate company performance. A study indicates that companies with high tax aggressiveness tend to provide false signals, whereas companies with low tax aggressiveness tend to provide more accurate signals(Francis et al., 2022). Signaling theory also presents an opportunity for companies to deliberately provide information to external parties to accentuate the positive aspects of the company, cultivate a positive image, and communicate the company's advantages to stakeholders (Soemarsono, 2020).

Tax Aggressiveness: Definition and Development

Tax aggressiveness is a term often used to describe strategies taken by companies in an effort to minimize tax payments through various legal schemes, although not always in accordance with the spirit of tax law. Many companies, especially multinational companies, use legal loopholes and differences in tax rules between countries to reduce their tax burden. On the other hand, some companies also utilize domestic tax policies such as incentives and tax breaks to significantly reduce their tax liabilities. Tax aggressiveness refers to corporate actions taken with the primary objective of reducing their tax liabilities. A low level of transparency may indicate the practice of tax aggressiveness. Companies that practice tax aggressiveness often look for ways to reduce the taxes they have to pay. However, these actions must consider the ethics of society and the interests of the company's stakeholders. In the practice of aggressive tax planning, companies often apply tax avoidance tactics to reduce their tax obligations. With this tax avoidance action, companies aim to increase their net profit (Ishaqi et al., 2020).

Narcissistic CEO

There are several factors that can influence corporate tax avoidance practices. These factors include CEO narcissism, board size, the presence of female directors, financial difficulties, and company size (Aliyyah, 2021). Narcissistic CEOs are characterized by an exaggerated sense of self-importance, exaggerated self-image, a penchant for self-aggrandizement, and an ongoing desire for recognition. Characteristics of narcissism can motivate lawbreakers. Their overconfidence and perception of the incompetence of others can lead to unwise decision-making (Araújo et al., 2021). It is important to acknowledge that CEOs with narcissistic tendencies are also capable of influencing corporate tax policies. They may, for instance, encourage the implementation of payment deferral strategies or the utilisation of legal and illicit mechanisms with the objective of reducing the corporate tax burden (Hanlon & Heitzman, 2010). The hypothesis presented in this study is as follows;

H1: Narcissistic CEOs affect tax aggressiveness.

2. Method

This research employs quantitative methods with analytical tools in the form of regression analysis, conducted using the open-source software JASP 19.1. Jeffrey's Amazing Statistics Program (JASP) is a pioneering software for Bayesian statistical analysis. It offers a comprehensive range of tools for both basic and advanced statistical techniques, with a particular focus on providing a simple and intuitive interface (Nursalim Malay et al., 2022). This research employs JASP rather than SPSS for several reasons, including the following: JASP offers a more intuitive and user-friendly interface; it is an open-source and free program, eliminating the need for a license fee, in contrast to SPSS, which requires a fee; and, as SPSS has been utilized in numerous studies, JASP provides an alternative that is as effective as the SPSS program. The population under investigation comprised 903 companies listed on the IDX. The sampling technique employed was purposive sampling. The final sample, obtained by applying the pre-established criteria, consisted of 644 companies. The criteria included the following: (1) the company must be listed on the IDX in 2023, (2) the company must publish an annual report and complete financial data for the current year, and (3) the company must not have incurred losses during the measurement period to avoid distortion in the assessment of tax aggressiveness.

Table 1 Summary of Sample Selection

Keterangan	Jumlah
Number of research samples	903
Companies that do not publish LK 2023	(43)
The company does not have complete financial data	(97)
Companies that lost money in the research year	(119)
Total research data processed	644

3. Results and Discussion

3.1 Results

Descriptive Statistics

	Agresivitaspajak_CETR	CEO_Narsistik
Valid	644	644
Missing	115	115
Mean	0.274	4.335
Std. Deviation	0.208	0.923
Skewness	1.314	-1.166
Std. Error of Skewness	0.096	0.096
Kurtosis	1.598	0.255
Std. Error of Kurtosis	0.192	0.192
Shapiro-Wilk	0.888	0.723
P-value of Shapiro-Wilk	< .001	< .001
Minimum	0.000	1.000
Maximum	0.994	5.000

Source: JASP 19.1 Processed

The Shapiro-Wilk test is a statistical test method used in JASP to test the assumption of of data normality. This test is also used in the independent t-test (to see the distribution of data in two groups) and paired t-test (to see the difference in the distribution of data in pairs). in two groups) and paired t-test (to see the difference in data distribution in pairs of data). This test produces a W value; where a small W value indicates that your data is not normally distributed (Bagaskara & Akmal, 2019). On the Descriptives menu, the Shapiro-Wilk test can be selected by checking the Distribution test. The Shapiro-Wilk test results table shows that there is no significant difference between the data with normal distribution for Agresivitaspajak_CETR and CEO_Narsistik.

ANOVA

Model		Sum of Squares	df	Mean Square	F	p
M_1	Regression	0.512	1	0.512	0.516	0.473
	Residual	617.031	623	0.990		
	Total	617.543	624			

Note. M_1 includes CEO_Narsistik
Note. The intercept model is omitted, as no meaningful information can be shown.

Coefficients

Model		Unstandardized	Standard Error	Standardized	t	p
M_0	(Intercept)	-2.939	0.040		-73.856	< .001
M_1	(Intercept)	-3.073	0.191		-16.061	< .001
	CEO_Narsistik	0.031	0.043	0.029	0.719	0.473

3.2 Discussion

The third independent variable in this study is the narcissistic CEO. As evidenced by the T-statistical test results presented in the preceding table, the calculated T-value of -0.247 is less than the T-table value of 1.964, and the associated significance value of 0.104 is less than the 0.05 level of significance. The calculated T value is less than the critical value, thus rejecting the null hypothesis (H0) and accepting the alternative hypothesis (H1). This finding aligns with the conclusions of previous research, including studies by Pratomo et al. (2022) and Doho & Santoso (2020), which indicate that narcissistic CEOs do not influence tax aggressiveness.

4. Conclusion

This study employs IDX-indexed companies in 2023 as its research subjects. By utilizing the purposive sampling method, 624 final company data sets (comprising financial statements and annual reports) were obtained and utilized as samples in this study. The companies used as samples have met the requisite criteria for inclusion as research samples, as previously described. The partial hypothesis testing results suggest that there may be a positive but insignificant effect of CEO narcissism on tax aggressiveness. This could be because narcissistic CEOs may not manipulate accounting financial statements in the company, as the company already has good internal controls in place to reduce actions that could harm the company. Additionally, there is likely adequate audit quality.

These results seems to go against the signalling theory, which says that CEO traits like CEO narcissism can signal to stakeholders about the CEO's ability or preference in making strategic decisions, including tax aggressiveness. However, this result is in line with research by Amran (2020), which shows that CEO narcissism has no effect on tax avoidance.

5. Acknowledgment

I would like to express my sincere gratitude to the Directorate General of Higher Education, Ministry of Education, Culture, Research, and Technology (Direktorat Jenderal Pendidikan Tinggi, Kementerian Pendidikan, Kebudayaan, Riset, dan Teknologi) for providing the financial support that made this research possible. The funding from DRTPM has been instrumental in facilitating the data collection and analysis processes, allowing for a deeper exploration of the relationship between leadership and tax aggressiveness in Indonesia. This research would not have been possible without their generous support and commitment to advancing academic research in Indonesia.

6. References

Aliyyah, N. , dkk. (2021). What Affects Employee Performance Through Work Motivation? *Journal of Management Information and Decision Science*, *24*, 1–14.

Amran, M. (2020). The Effects Of CEO Narcissism And Leverage On Tax Avoidance. *Jurnal Mirai Management*, *5*(1), 293–304.

Araújo, V. C., Góis, A. D., Luca, M. M. M. De, & Lima, G. A. S. F. de. (2021). CEO narcissism and corporate tax avoidance,. *Revista Contabilidade & Finanças*, *32*(85), 80–94. https://doi.org/10.1590/1808-057x202009800

Bagaskara, S., & Akmal, S. Z. (2019). *Analisis Statistik Menggunakan JASP: Buku Panduan untuk Mahasiswa*. https://doi.org/10.6084/m9.figshare.9980744

Bilicka Daniela Scur, K. A., Devereux, M., Dowd, T., Ferraz, C., Friedman, J., Forbes, S., Gibbons, B., Guadalupe, M., Gumpert, A., McElheran, K., Prat, A., Sadun, R., Seidel, A., Van Reenen, J., Waldman, M., Ytsma, E., Bilicka Jon M, K. A., & Scur, D. (2021). *NBER WORKING PAPER SERIES ORGANIZATIONAL CAPACITY AND PROFIT SHIFTING*. http://www.nber.org/papers/w29225

Bivianti, V., Stefani, M. E., & Yuniarsih, N. (2022). *THE EFFECT OF EXECUTIVE CHARACTERISTICS, CEO OVERCONFIDENCE, CAPITAL INTENSITY ON TAX AVOIDANCE*.

Brunzel, J. (2021). Overconfidence and narcissism among the upper echelons: a systematic literature review. *Management Review Quarterly*, *71*(3), 585–623. https://doi.org/10.1007/s11301-020-00194-6

Buelow, M. T., & Brunell, A. B. (2018). Narcissism and Involvement in Risk-Taking Behaviors. In *Handbook of Trait Narcissism* (pp. 233–242). Springer International Publishing. https://doi.org/10.1007/978-3-319-92171-6_25

Czarna, A. Z., & Nevicka, B. (2019). Narcissism and Leadership. In *Encyclopedia of Personality and Individual Differences* (pp. 1–9). Springer International Publishing. https://doi.org/10.1007/978-3-319-28099-8_2334-1

Doho, S. Z., & Santoso, E. B. (2020). PENGARUH KARAKTERISTIK CEO, KOMISARIS INDEPENDEN, DAN KUALITAS AUDIT TERHADAP PENGHINDARAN PAJAK.

MEDIA AKUNTANSI DAN PERPAJAKAN INDONESIA, *1*(2), 169–184. https://doi.org/10.37715/mapi.v1i2.1408

Francis, B. B., Sun, X., Weng, C.-H., & Wu, Q. (2022). Managerial ability and tax aggressiveness. *China Accounting and Finance Review*, *24*(1), 53–75. https://doi.org/10.1108/CAFR-02-2022-0002

François, M., Vicard, V., & Francois, M. (2023). *Tax Avoidance and the Complexity of Multinational Enterprises April 2023 Tax avoidance and the complexity of multinational enterprises **.

Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics*, *50*(2–3), 127–178. https://doi.org/10.1016/j.jacceco.2010.09.002

Harymawan, I., Anridho, N., Minanurohman, A., Ningsih, S., Kamarudin, K. A., & Raharjo, Y. (2023). Do more masculine-faced CEOs reflect more tax avoidance? Evidence from Indonesia. *Cogent Business and Management*, *10*(1). https://doi.org/10.1080/23311975.2023.2171644

Ishaqi, M. U., Bambang, S., Sekolah, H., Ekonomi, T. I., & Surabaya, I. (2020). *PENGARUH CORPORATE SOCIAL RESPONSIBILITY DAN AGRESIVITAS PAJAK TERHADAP NILAI PERUSAHAAN*.

Johannesen, N., Tørsløv, T., & Wier, L. (2020). Are Less Developed Countries More Exposed to Multinational Tax Avoidance? Method and Evidence from Micro-Data. *World Bank Economic Review*, *34*(3), 790–809. https://doi.org/10.1093/wber/lhz002

Kalbuana, N., Taqi, M., Uzliawati, L., & Ramdhani, D. (2023). CEO narcissism, corporate governance, financial distress, and company size on corporate tax avoidance. *Cogent Business & Management*, *10*(1). https://doi.org/10.1080/23311975.2023.2167550

Kusumawardani, A. (2022). *Malleable Mental Accounting UMKM pada era VUCA*.

Kyung-min, L. (2020). Overseas tax evasion still rampant. *Https://Www.Koreatimes.Co.Kr/Www/Biz/2019/10/602_276911.Html*.

Nursalim Malay, M., Belajar Mudah, Ms., & Madani Jaya Bandar Lampung, C. (2022). *Analisis Data dengan SPSS dan JASP*.

Pratomo, D., Nazar, M. R., & Pratama, R. A. (2022). Pengaruh Inventory Intensity, Karakter Eksekutif, Karakteristik CEO Terhadap Tax Avoidance pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia (BEI) pada Tahun 2016-2020. *Jurnal Ilmiah Universitas Batanghari Jambi*, *22*(3), 1999. https://doi.org/10.33087/jiubj.v22i3.2871

Putri. (2020). Sri Mulyani Sebut 451 Ribu Wajib Pajak Minta Insentif, CNBC Indonesia. *Https://Www.Cnbcindonesia.Com/News/20201203192354-4-206723/Sri-Mulyani-Sebut-451-Ribu-Wajib-Pajak-Minta-Insentif*.

Saleh, A. R. (2020). Ekosistem Yang Mempengaruhi Pengembangan Pustakawan. *Jurnal Pustakawan Indonesia*, *19*(1), 53–66.

Saputri, I. W., & Kusumawardani, A. (2024). The Influence Of CEO's Face Masculinity, CEO Narcissism, Gender Diversity, And CEO Overconfidence On Tax Aggressiveness-Indri Widya Saputri et.al The Influence Of CEO's Face Masculinity, CEO Narcissism, Gender Diversity, And CEO Overconfidence On Tax Aggressiveness. *Jurnal Ekonomi*, *13*, 1049–1061. https://doi.org/10.54209/ekonomi.v13i03

Soemarsono, P. N. (2020). PENGARUH CORPORATE SOCIAL RESPONSIBILITY TERHADAP NILAI PERUSAHAAN DENGAN EARNINGS MANAGEMENT SEBAGAI VARIABEL MEDIASI. *Akuntansi : Jurnal Akuntansi Integratif*, *5*(02). https://doi.org/10.29080/jai.v5i02.184

Wier, L., & Erasmus, H. (2023). The Dominant Role of Large Firms in Profit Shifting. *IMF Economic Review*, *71*(3), 791–816. https://doi.org/10.1057/s41308-022-00180-w