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The Moderating Effect of Earnings Management on The Relationship Between CEO Narcissism And Tax Aggressiveness

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Abstract

This study aims to test and find the effect of earnings management acting as moderating variable on the relationship between CEO Narcissism and tax aggressiveness. 14 mining companies in Indonesia became sample in this research, with five years of observation for a total of 70 observations. The nexus between variables was analyses using Moderated Regression Analysis (MRA) where this research variable consists of tax aggressiveness, CEO narcissism, while earnings management is moderating variable. *The results found that a moderating effect was found on the relationship between CEO narcissism and tax aggressiveness. This indicates that an improved business performance will encourage companies to carry out proactive financial management. Corporate governance can reduce the impact of aggressive tax-based earnings management.*

Keywords: *Earnings Management, CEO Narcissism, Tax Aggressiveness*

A. INTRODUCTION

The more the company's profits increase, the more narcissistic the CEO is in manipulating profits. This is because companies with aggressive CEOs believe that the decisions they will make will have a positive impact on them compared to others(Rianty N & Rani, 2021). So this is a big risk, let's call it a big risk, because the CEO believes it will reduce the tax payments of the company involved in tax evasion. CEO narcissism is a characteristic that exists in a leader to achieve the desired goal(Fahira et al., 2024). The more the company's profits increase, the more narcissistic the CEO is in manipulating profit (Meilani et al., 2022)s. This is because companies with aggressive CEOs believe that the decisions they will make will have a positive impact on them compared to others. So this is a big risk, let's call it a big risk, because the CEO believes it will reduce the tax payments of companies involved in tax evasion.

CEO narcissism is a self-centered and self-absorbed attitude towards others(Putri, 2021; Santrock, 2011). The narcissistic character is very self-centered, creates the perception that he is perfect (self-congratulatory), and considers his wishes and desires to be very important. Narcissism can be interpreted as one of the dark personality traits suitable for CEO leadership research (Fatfouta, 2019). There are factors that indicate the behavior of a CEO in conducting tax aggressiveness other than CEO narcissism, namely CEO compensation, which is something in the form of rewards given to employees for the services they have provided to the company, both in the form of money and goods. If the CEO is opportunistic, it shows that the CEO uses his position to practice earnings manipulation so that the profit that appears in the financial report becomes increased / good so that it can be considered to be performing well, the CEO is more aggressive to carry out earning management, on the other hand, if the CEO is less aggressive, the CEO will report to investors the information as it is so that earnings management practices tend to be lower. His aggressiveness to carry out earnings management practices is influenced by the motivation to reduce the amount of tax paid, CEOs who tend to be aggressive will do tax avoidance. The more aggressive a CEO is, the more aggressive a CEO will also practice Tax Avoidance so that it will motivate the CEO to practice management report research results.

Previous studies have explained that CSR policies have an impact on corporate decisions or policies & corporate performance. Despite the extensive literature in recent decades, there is no uniform definition of social responsibility, also because the concept of corporate social responsibility has gone through many stages of development (Ulya & Handayani, 2021). One of the factors that is predicted to cause tax aggressiveness is earnings management,(Adam & Putri, 2018; Neifar & Utz, 2019) which is the activity of managing and engineering profits so that accounting profits can be achieved. One way to do earning management is to manipulate earnings without any direct impact on cash flow(Triani & Abbas, 2023), someone does earnings management to influence earnings figures in accordance with management interests, earnings information in financial statements is important information to show company performance(Abbas, 2018). One of the factors that cause earning management is CEO narcissism because of aggressiveness. This is a characteristic that exists in a leader to achieve the desired goal. The relationship between CEO narcissism and Earning management is that the more the company's profit increases, the more aggressive the CEO is in manipulating earnings.

Companies that carry out tax aggressiveness (tax aggressiveness) are usually carried out by the management of the company through policies taken by the leadership or CEO (Chief Executive Officer) of the company. There are two characteristics of CEOs, namely CEOs who accept risk (risk-taking) and CEOs who reject risk (risk-averse). One of the factors that encourage the CEO to carry out tax aggressiveness is CEO compensation, the compensation given to the CEO can encourage tax avoidance.

Previous research states that the CEO's educational background affects tax aggressiveness, while(Purwanto & Purwantoro, 2020). CEO compensation has a negative and insignificant effect on tax aggressiveness. Furthermore, in research conducted (Ulya & Handayani, 2021). Prior research that discusses earning management and tax aggressiveness has been widely found in Indonesia, but research that discusses the relationship between CEO aggressiveness and tax aggressiveness is still minimal or rarely found. This is what motivates researchers to conduct this research. In this study, CEO aggressiveness is measured through CEO narcissism, then the sample in the study was a company incorporated in mining listed on the IDX. The sample selection is based on the mining industry making a large contribution to the Gross Domestic Product (GDP) of the country, Indonesia is also one of the largest mining producing countries in the world. Thus, the nexus between CEO viewpoint in reporting tax can be elaborated under agency theory. Agency theory is used when Business management tries to avoid corporate taxes to obtain large profits or company value. However, this goes against the wishes of clients who do not want tax avoidance or tax aggressiveness, as they perceive this as fraud. In agency theory, a corporation is a set of agreements (contractual obligations) between the owners (principals) and managers (agents) of economic resources that govern the use and control of those resources. Board issues are internal issues arising from the conflicting interests of owners (shareholders) and, more generally, management. (Jensen and Meckling, 1976). Differences in interests between principals and agents can affect various matters concerning company performance, one of which is company policy regarding taxes. Managers as agents have an interest in obtaining maximum compensation or incentives through high profits on performance and shareholders want to reduce taxes paid through low profits.

Based on the above background, the researchers are interested in conducting a study entitled Analysis of CEO Aggressiveness on Tax Aggressiveness in moderation Earning Management in

Mining Companies. The purpose of this study is to test and obtain empirical evidence of the moderating effect caused by earnings management. The finding of this research contributes to add insight into the tenet of earnings management. The benefits for researchers are that they can add insight and be able to develop thoughts according to what is researched and can have an influence on other people / society. The results of this research are useful as a study material to increase knowledge in the field of accounting and especially taxation regarding the tax aggressiveness of mining companies listed in Indonesia. In the director general's division, the results of this tax survey are expected to be taken into consideration in the formulation of policies to minimize the tax avoidance gap for taxpayers.

Hypothesis Development

Agency theory arises from agency interactions between business owners and managers. This theory is explained in detail by(Jensen & Meckling, 2012), according to which agency interactions can lead to cases where there is a conflict of interest between the principal who is the owner of the company and the agent who is the manager of the company. The owners of the company entrust the management of the company to the managers, hoping that the company will achieve high productivity and better results every year. However, business leaders also have their own motives that prioritize their personal interests(Abbas, 2017). Conflict of interest combined with information asymmetry, where managers know more about the company than the owner, is the basis for the emergence of agency problems in the company.

CEO narcissism is the action of a CEO using his position to practice earnings manipulation so that the profit that appears in the financial report becomes increased / good so that it can be considered to be performing well, the CEO is increasingly aggressive to get the highest position which tends to manipulate earning management.

Even though compensation is given high, the CEO is not motivated to do tax avoidance because it is his responsibility. The results of the second study conducted (Wicaksono & Oktaviani, 2021) on family companies in the 2016-2019 period, state that family companies also state how the characteristics of the CEO, predicting that CEO aggressiveness can be described through the characteristics and education of the CEO. So the characteristics of the CEO show that the CEO problem as well as gender has an effect on tax aggressiveness. Based on the explanation above, the hypothesis proposed is:

H1: *CEO narcissism affects tax aggressiveness*

Tax aggressiveness reflects how much effort the company must make to minimize the tax burden. The research results found them (Masri, 2022; Metha Nurfitriasih & Febriantina Istiqomah, 2022) on mining companies which reports that tax aggressiveness has a positive effect on earnings management, allows the company to increase its profits to the point where its performance can be considered good because it can meet the expectations of traders. Conversely, if the tax authorities determine that this tax aggressiveness can harm the company by harming the company's public, then the company's losses are not only important or small. material loss

Good Corporate Governance can weaken the influence of corporate profits and risk management(Lisboa & Costa, 2020). These results mean that companies that are good GCG can minimize management actions to avoid taxes. Real income management and profitability have a positive effect on tax aggressiveness, while financial distress does not affect tax aggressiveness, because the CPC as a moderating variable can moderate the effect of real income management and profitability on tax aggressiveness.

H2: Earnings management moderation affects the relationship between CEO narcissism and tax aggressiveness.

B. METHOD

Data and Sample

The data used was obtained from the Indonesia Stock Exchange website (www.idx.com) and sample was firms with the mining sector listed in the period 2017-2021 and have reported their financial statements in 2017-2021. The sampling technique in this study was purposive sampling, purposive sampling is sampling by making considerations or criteria where only companies that meet the requirements will be used as research samples. The criteria are as follows:

1. Companies engaged in the mining sector listed on the Indonesia Stock Exchange for the period 2017-2021.
2. Companies engaged in the mining sector that are not normal in reporting their financial statements in 2017-2021.
3. Companies engaged in the mining sector that are listed on the IDX from 2017-2021.

This study uses 70 data taken from the company's annual report with 14 mining sector companies for a period of 5 years starting from 2017 to 2021.

Research Variable

Earnings management is measured using Jones Modification Model.

$$\frac{T\ Ait}{Ait-1} = \beta 1\left(\frac{1}{Ait-1}\right) + \ \beta 2\left(\frac{\triangle\ Revit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right) + \varepsilon$$

While CEO narcissism is measured by 1 point = no CEO photo in the annual report; 2 points = CEO photo together with other executives; 3 points = CEO photo alone with the size of half a page; 4 points = CEO photo alone with the size of half a page but does not fill a full page; 5 points = CEO photo alone with the size of one page. Tax aggressiveness is an attempt to minimize the tax burden.

$$A\_TAX = \frac{Tax\ Payment\ i\ period}{Profit\ before\ tax}$$

Data Analysis

The approach used in this research is a causality approach. Causality / cause and effect so that from the results of this study a comprehensive and systematic picture can be obtained relating to how CEO Aggressiveness on Tax Aggressiveness is moderated by Earning Management in Mining Companies on the Stock Exchange for the period 2017-2021. This research variable consists of one dependent variable and one independent variable. The dependent variable is tax aggressiveness (Y), while the independent variable is CEO narcissism (X) and earnings management is moderating variable Modetated Regression Analysis was employed to test the hypotheses of relationship between narcissism CEO and aggressivity and earnings management.

C. RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistics for each variable is displayed in the following table that present mean, minimum, and maximum values.

Table. 1 Descriptive Statistics

Variable	Mean	Min	Max
N_CEO	7.95	0.91	8.26
A_TAX	2.95	0.01	8.01
EM	10.17	0.001	25.56

The CEO Narcissism variable (X) displays a mean value of 7.95. This shows that the average CEO has a high level of narcissism, thus indicating that very many CEOs use their own photos with a half page size but do not fill a full page in the annual report. Then for the minimum value of 0.91 and a maximum of 8.26, while the Tax Aggressiveness Variable (Y) shows that the average value (mean) is 2.95 and the highest value (maximum) is obtained at 8.01 and the lowest value (minimum) is obtained at 0.01. While earnings management shows an average of 10.17.

Overall, the average CEOs pay a lot of attention to the content and design of annual reports because they have a strong opinion and control over how they present themselves, meanwhile the average Tax Aggressiveness denotes that the majority of firms use tax planning activities that are aimed at avoiding paying tax or significantly reducing the tax burden you have to pay. In addition, earnings management showing an average of 10.17 means high accrual discretionary made by managers to manage their earnings

Hypothesis Test Results

Before hypothesis testing is carried out, a classic assumption test is made. This test has the aim of getting the estimated value obtained to have the best value, linear, and unusual. So the data that will be used in regression analysis will first be tested for normality, multicollinearity test, and autocorrelation test. For normality test, Non-parametric Kolmogrov-Smirnov test data displays that the residual value is 0.200> 0.05, and coefficients show that the tolerance value between variables is 0.745. Meanwhile, the VIF value is 1.090. This means that the independent variables do not have symptoms of multicolonierity, because the tolerance> 0.10 and VIF value < 10 are obtained.

To see the value of the coefficient of determination (R2), the R Square value of 0.095 is obtained, which indicates that the percentage of influence of the independent variable is 9.5%. This means that the ability to explain the variable is 9.5% while the remaining 90.5% is influenced by other variables not included in this study.

Tabel 2. Result of Hypothesis Testing

Variable	Coef.	t-value	Sig.
N_CEO	0.809	1.392	0.038
N_CEO*EM	0.009	1.031	0.046
R-Square	0.095		

The CEO Narcissism variable on Tax aggressiveness shows the tcount value on the CEO aggressiveness variable is 1.810 with a significance level of 0.034. Because the significance value <0.05 (0.026 <0.05) and the tcount> ttable value (1.810> 1.668), then H01 is rejected and Ha1 is accepted. So it can be said that CEO aggressiveness has a significant positive impact on Tax Aggressiveness. Therefore, H1 is accepted.

Regarding the moderating effect of earnings management on CEO narcissism and Tax aggressiveness obtained a value of 0.046. The value of the test results is smaller than the expected significance value, which is 0.05. The CEO narcissism variable in this test can act as a moderating variable in tax aggressiveness. Thus, the CEO aggressiveness variable has a role as a quasi-moderator variable that can be both a moderator variable and an independent variable. Therefore, H2 is accepted.

The Effect of **CEO Narcissism on Tax Aggressiveness**

CEO aggressiveness has a significant positive impact on Tax Aggressiveness. Therefore, H1 is accepted. CEO aggressiveness is a characteristic that exists in a leader to achieve the desired goal. In research (Agustina, 2022) states that the more the company's profits increase, the more aggressive the CEO is in manipulating profits. This is because companies with aggressive CEOs believe that the decisions they will make will have a positive impact on them compared to others. So it's a big risk, let's call it a big risk, because the CEO believes it will reduce the tax payments of the company involved in tax evasion. Companies with overconfident CEOs are more likely to engage in tax aggressiveness than companies with less aggressive CEOs. Because companies with aggressive CEOs believe that their decisions will have a positive impact on the performance of the company they lead and believe that their decisions are the best compared to others. So that it will have an impact on taking decisions that are at great risk, said to be at great risk because the CEO is confident to reduce corporate tax payments. They do this in order to get praise, appreciation for the results they want. And also the company's poor internal control system because aggressive CEOs can manipulate accounting reports in the company.

The results of this study can be compared with several relevant studies. First, regarding CEO recruitment is positively influenced by educational background, the higher the education, the more likely he is to be appointed as CEO. A researcher (Aliani, 2018) showed that the CEO's educational background affects tax planning, which is a form of tax aggressiveness, especially from an economic, fiscal, and financial background.Second, another demographic factor that appears in the CEO is gender. In Charness & Gneezy's research, (2019) found that male CEOs take more risks when making financial decisions. Simon & Zhang's research (2018) shows that CEO gender plays a role in making risky fiscal policy decisions, and that female CEOs increasingly reduce the level of risk in their fiscal policy decisions. This is supported by Charness & Gneezy, (2019). Third, Faccio & Mura, (2018) researchers show that female managers are more risky when making decisions, i.e. male managers are more willing to take risks when making decisions. Among the many risks is the risk of violating tax regulations by minimizing the tax burden, so CEO gender is related to tax aggressiveness, which is a kind of decision to minimize the tax burden, because each gender has a different risk of pain.

The Moderating Effect of Earnings Management on the Relationship between CEO Narcissism and Tax Aggressiveness

Companies with overconfident CEOs are more likely to conduct Tax aggressiveness than companies with less aggressive CEOs. Because companies with aggressive CEOs believe that their decisions will have a positive impact on the performance of the company they lead and believe that their decisions are the best compared to others. So that it will have an impact on taking decisions that are at great risk, said to be at great risk because the CEO is confident to reduce corporate tax payments. They do this in order to get praise, appreciation for the results they want. And also the company's poor internal control system because aggressive CEOs can manipulate accounting reports in the company.

The results of this study can be compared with several relevant studies. First, regarding CEO recruitment is positively influenced by educational background, the higher the education, the more likely he is to be appointed as CEO. A prior researcher showed that the CEO's educational background affects tax planning, which is a form of tax aggressiveness, especially from an economic, fiscal, and financial background (Aliani, 2014).Higher profits from year to year indicate the positive development of the company. However, the increase in profit will definitely affect the company's tax burden. This encourages managers to implement earnings management and tax aggressiveness in accordance with shareholder expectations, such as high profits and low tax burden, to increase the company's net profit (April et al., 2017).

The results of this study are in line with research conducted by scholars (Metha Nurfitriasih & Febriantina Istiqomah, 2022; Ulya & Handayani, 2021). Earnings management in company operations is known as one of the ways companies can maximize profits. Companies do this because profit is a benchmark for managerial decision making for the next period, as a basis for calculating tax payments and guidelines in determining investment policies. MRA decomposition of CEO aggressiveness multiplied by Earning Management on Tax aggressiveness obtained a value of 0.046. The value of the test results is smaller than the expected significance value, which is 0.05. The CEO aggressiveness variable in this test can act as a moderating variable in tax aggressiveness. Thus, the CEO aggressiveness variable has a role as a quasi-moderator variable that can be both a moderator variable and an independent variable.

D. CONCLUSION

Corporate earnings management that aims to minimize profits. As a result, even high income or income can be deducted from taxes, while a CEO has an effect on tax planning which is a form of tax aggressiveness, which is a form of tax aggressiveness, especially for those who have an economic, tax, and financial education background. The moderating effect of earnings management on CEO narcissism and tax aggressiveness has a quasi-strengthening effect. CEO narcissism has an effect on tax aggressiveness run by the company. Companies with aggressive CEOs believe that the decisions they will make will have a positive impact on them compared to others, so that it will have an impact on taking decisions that are at great risk, said to be at great risk because the CEO is confident to reduce corporate tax payments. They do this in order to get praise, appreciation for the results they want.

The results of this tax survey are expected to be taken into consideration in the formulation of policies to minimize the tax avoidance gap for taxpayers. the coefficient of determination is small, which is only 9.5%, so further research is expected to add other variables that can affect tax aggressiveness.

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