



THE ROLE OF WOMEN CHIEF EXECUTIVE OFFICERS ON TAX AVOIDANCE DECISIONS IN ISLAMIC STOCK INDEX

Wahid Wachyu Adi Winarto✉, Amalia Fakhru Nisa

Universitas Islam Negeri K.H. Abdurrahman Wahid, Pekalongan, Indonesia

✉wahidwachyuadi@uingusdur.ac.id

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ABSTRACT

This study aims to show empirical data on the impact of women CEO traits on tax avoidance. The populations are all companies listed on the Indonesian Islamic Stock Index from 2021 to 2022, as many as 403 firms. The data collection technique used in this research was quota sampling, which obtained 350 observation data. The variables that were observed in this study were employed as the study's objectives, including the traits of women CEOs as independent variables, tax avoidance as a dependent variable, and profitability, leverage, and firm size as control factors. Multiple linear regressions are used in the analysis that was used to solve the first problem. The findings indicated that female leaders who serve as CEOs negatively influence tax avoidance. This research is expected to add to the literature and be helpful in the development of accounting disciplines, especially in corporate governance in disclosing tax avoidance by companies. The practical implications of this research provide helpful managerial implications for companies as corporate governance in managing strategies and policies related to corporate tax payments.

Keywords: women CEO, tax avoidance, profitability, leverage, firm size.

INTRODUCTION

In uncertain economic conditions, one of the company's strategies is to avoid taxes to increase company profits (Janusz Sowiński 2019). Tax avoidance by companies results in state tax revenue not reaching the target (Arulampalam, Devereux, and Liberini 2019). Tax avoidance is legal because it does not violate any tax regulations. However, this practice can impact a country's tax revenues. Allowed tax avoidance has the following characteristics: having reasonable business goals, not solely avoiding taxes, under the spirit and intention of parliament, and not carrying out engineered transactions (Oats and Tuck 2019). Tax avoidance is a practice carried out by taxpayers to reduce, avoid, or delay paying taxes that should be owed (Alstadsæter et al. 2022). Taxpayers who avoid fulfilling tax obligations will harm state revenues (Molodykh 2019). For this reason, the government regulates a series of instruments to prevent tax avoidance practices to maintain the optimization of state revenue from a taxation perspective.

Tax avoidance is a tax planning activity designed for explicit tax reduction (Alstadsæter et al. 2022). Tax avoidance by a company will impact the company's business (Evertsson 2016). In implementing tax avoidance, taxpayers take advantage of the tax regulatory loopholes stipulated in the tax law to avoid tax obligations that can burden the taxpayer so that the tax owed is lower and increases profits for shareholders. In other words, tax avoidance optimizes taxpayer profits without committing fraud in taxation (Laub 1999). Even though



tax avoidance is legal in the eyes of the law, it is still detrimental to the state because it causes a decrease in state revenue from the tax sector. Because of this impact, tax avoidance is considered to harm the state. Many cases provide examples of the practice of tax avoidance in Indonesia; for example, PT RNI, an affiliated health service company in Singapore, 2016 was identified as practicing tax avoidance in many ways, namely recognizing the affiliation's debt as capital, reporting sizable losses in the company's financial statements, and reporting that the company's turnover remained at below 4.8 billion IDR per year to utilize government regulation number 46 the year 2013 concerning income tax specifically for MSMEs, to obtain a final income tax rate facility of 1 percent (Pratama, Narsa, and Prananjaya 2022).

The CEO is the leader who will determine the success or failure of a business (Chiu, Li, and Kao 2022). In addition, a CEO greatly influences the company's reputation (Chiu, Li, and Kao 2022). Therefore, this position must be filled by selected people (Nazir et al. 2018). The CEO plays an active role in decision-making and acts as a point of communication between the board of directors and shareholders. Leadership is a fundamental ability that must be owned by every CEO, even for the manager class (Nazir et al. 2018). This leadership ability is closely related to the CEO's position as the company's leader (Chiu et al. 2021). A woman or a man can occupy the CEO. Men occupy the majority of CEOs in companies, but there are several CEOs of companies that women occupy.

Studies on CEO power, gender variability, and CEO behavior have been carried out, and the results are varied (Brahmana, You, and Yong 2021; Zhou et al. 2021). A strong CEO will impose his will on the company's strategic decisions, leading to poorer performance and more risk (Brahmana et al., 2021; Chiu et al., 2021). Women in leadership are closely associated with risk aversion. Studies state that women in management positively contribute to the company (Rigolini, Gabaldon, and Goldeng 2021; Rocca et al. 2023). A study by Oyerogba and Ogungbade (2020) examined the characteristics of women and male CEOs in efficiently allocating funds. They found that women CEOs have lower debt ratios, more stable company profits, and a higher chance of surviving than male CEOs in similar companies. On the other hand, a low debt level indicates a company's underinvestment so that it can reduce the company's value in the future (Suleiman 2020; Kountur, Djohanputro, and Sari 2021). Even low debt will improve earnings management (Amelia and Mulya 2022). A previous study on female CEOs has had a significant impact on companies. Even the number of women CEOs continues to increase in various parts of the world.

A study on women or gender CEOs regarding tax avoidance has been carried out by Chang et al. (2019), stating that women CEOs with political backgrounds tend to carry out more tax avoidance activities. Ilaboya and Aronmwan's (2023) study states that CEO gender is significantly related to tax avoidance. Jarboui, Saad, and Riguen (2020) study states that tax avoidance decreases as the number of women CEOs increases. A study by Eoh and Prayoga (2023) states that female board of directors and independent commissioners do not influence tax avoidance. The results of previous research show inconsistent results, but by adding profitability, leverage, and firm size as control variables, this research becomes different from previous research. Therefore, it is essential to



carry out further studies using different data and observations. This study aims to investigate the relationship between women CEOs and tax avoidance.

LITERATURE REVIEW

The Upper Echelons Theory

The upper echelon theory is a theory that has been developed by Hambrick and Mason (1984). This theory describes if top management can significantly contribute to performance (Hiebl 2014). The management background can predict the outcome of strategic choices and some level of performance. Upper echelon theory explains that leaders' values and cognition reflect their chosen strategies (Hambrick 2007). This theory is supported by some previous studies that have been conducted, for example (Hinterleitner and Sager 2022). In this study, it was stated that organizational results are a reflection of the values, culture, and cognitive base of a strong manager or, in other words, demographic characteristics (age, education, tenure, and background) and psychological, especially the values of an individual manager have an impact on results of an organization. Based on the upper echelons theory, it can be said that the background of a women CEO can influence management decisions in determining strategy.

Tax Avoidance

Tax avoidance is a form of business to legally and legally reduce tax costs by utilizing and optimizing the regulations in the field of taxation to the maximum, such as exceptions and permissible deductions both for the benefits of things that have not been regulated as well as deficiencies that exist in the tax regulations that have been running (Oliviana and Mu'id 2019). Tax avoidance is a form of effort to minimizes tax costs by not violating legal laws (Emzaed et al. 2018). In line with research, Choi and Park (2022) state that tax avoidance is an action to reduce tax obligations legally. Tax avoidance is a form of business that minimize legal and legal tax debts, in contrast to tax avoidance, which is an attempt to minimize tax debts that are illegal or unlawful (Dang and Tran 2021). Of course, business people, especially companies, want to get the maximum possible income by maximizing the minor possible burden (Linantis 2021). Even though taxes are one of the most significant state revenues for the government, in the morning, economic actors, especially tax companies, are less profitable for him (Widiawati 2016). Something that does not invite profit will enable a person or company to avoid or even fight (Ma and Park 2021). Therefore, that drives and motivates companies to reduce their tax costs by avoiding taxes (Hong, Ryou, and Srivastava 2023). Tax avoidance is permissible because it does not violate tax regulations and is one of the efforts to carry out tax planning (Oliviana and Mu'id 2019).

Characteristics of Organizational Leaders

Executives occupy essential positions in a company because executives are felt to have high rights of authority and power to be responsible for directing and running all the company's operations (Munteanu et al. 2020). Executives certainly significantly impact the companies they lead (Pirayesh and Pourrezay 2020). Executives also have crucial tasks, one of which is to coordinate their



subordinates. Executives must direct the direction of the company's path so that executives must also be able to make decisions and policies in the company they lead (Suryarini, Cahyaningrum, and Hidayah 2020). All individuals certainly have different characters from each other, and each executive can have a different character in becoming the company's leader (Asih and Darmawati 2022). Organizations are led by a management hierarchy, with the chief executive officer (CEO) at the top, where these leaders have varying qualities and styles of decision-making (Gomes 2016). Leaders may have a character who is not afraid of risk or someone who is afraid of risk (Fowler et al. 2021). The executive character also shows the actions taken by the company's superiors when faced with a problem that contains a risk (Berger, Zhen Zhang, and Viswanathan 1996). The decisions taken will show whether the executive is someone who has a character who is brave with risks or not (Chatterjee and Hambrick 2011).

Existence of a Women CEO in the Organization

CEO, or chief executive officer, is the highest position in the executive ranks and must be responsible for all the company's operational activities. Investors usually judge a company by knowing details about the company's CEO (Oyerogba and Ogungbade 2020). The gender background of the CEO is quite essential for company decisions; CEOs with a women gender background will be more careful in carrying out company activities. As far as tax avoidance is still seen as an investment opportunity, everyone will hope that a women CEO can manage tax avoidance by considering all the risks and benefits. Chiu et al. (2021) also found that CEOs with financial expertise have acquired the skills necessary to communicate with capital markets through a better ability to reduce information asymmetry. One benefit associated with these skills and abilities is better access to capital.

Profitability

The profitability ratio describes the company's ability to earn profits through all its capabilities (Winarto 2021). The ratio used to evaluate financial remuneration for using assets or equity to net income (profits after interest and taxes) is called the return on investment (ROI) ratio. This ratio is made up of return on assets (ROA), which measures how well a company uses its assets to generate net income. This ratio is frequently used to calculate the net profit produced for each IDR of money contained in total assets. Return on equity (ROE) is a ratio that demonstrates how effectively a company's stock contributes to net income. This ratio is also commonly used to measure how much net profit can be generated from every IDR of funds embedded in total equity.

Leverage

Leverage is an effort by companies to use or utilize assets and sources of funds with fixed costs to increase and optimize potential profits for shareholders (Zuhroh 2019; Diroh and Mochlasin 2023). Interest expense that can be used as a deduction from taxable profit is interest expense arising from loans to third parties or creditors who have no relationship with the company (Hendrawan, Islamiati, and Setyowati 2019). Elbashir, Collier, and Davern (2008) have recommended that tax avoidance increases when leverage levels are higher. Chu and Jiang



(2019) interpret leverage as the use of assets and sources of funds from companies with fixed costs (fixed expenses), meaning that sources of funds originate from loans because they have an interest as a fixed burden to increase potential profits for shareholders. The leverage ratio measures how much the company is financed by debt (Pfeifer and Pikhart 2019). Leverage is a ratio explaining the relationship between a company's debt and capital or assets (Chen and Zhao 2007). Equity debt is the ratio used to assess debt and equity. This ratio is sought by comparing all debt to all equity (Tarsono 2021).

Firm Size

Firm size is one of the variables frequently used in the accounting and finance literature and is usually defined as the log of total assets or the natural logarithm of sales (Meiryani et al. 2020). Firm size is the company's size, which can be classified based on various ways, namely by the size of revenue, total assets, and total equity (Delgado, Fernández-Rodríguez, and Martínez-Arias 2018). Companies with significant total assets show that these companies tend to be relatively more stable and can generate greater profits than companies with fewer or lower total assets. Ravichandran (2018) explained that the size of the company shows the stability and ability of the company to be able to carry out its economic activities. The larger the company's size, the more it will become the main focus of attention from the government, and it will decrease the tendency for company managers to be compliant or aggressive in taxation. Firm size is a way of classifying a company based on the total assets owned by the company. The greater the total assets indicate, the larger the company's size. Companies with significant total assets can show that these companies tend to be more stable and able to generate greater profits than companies with lower total assets (Delgado, Fernández-Rodríguez, and Martínez-Arias 2018). This also illustrates that companies are more stable and capable of generating profits compared to companies with smaller total assets (Yushita, Rahmawati, and Triatmoko 2013).

Hypothesis Development

In determining the company's chosen business strategy, a CEO plays an essential role in deciding. Of course, the decisions taken will be different if a CEO is a woman compared to a male CEO. The gender of the CEO has a significant influence on the decisions taken, especially for tax avoidance. Recent financial and human resource literature shows that the characteristics of directors and managers significantly influence company policies and outcomes (Awan and Akram 2012). Following this line of research, recent studies provide evidence that executives face different consequences for adopting different taxation strategies. Suleiman (2020) shows that CEOs and directors are rewarded by increasing the number of outside boards of directors for being tax-aggressive. Through CEO characteristics, management can observe the costs and benefits of implementing such tax strategies, understand that they are ultimately accountable to shareholders, and embrace maximizing shareholder wealth, therefore being aggressive in tax avoidance. However, Jarboui, Saad, and Riguen (2020) study states that tax avoidance decreases as the number of women CEOs increases. Based on this explanation, the following hypothesis is proposed:
 H_1 : women CEOs affect tax avoidance.



The hypothesis proposed so that researchers can describe the research model in this study is contained in Figure 1.

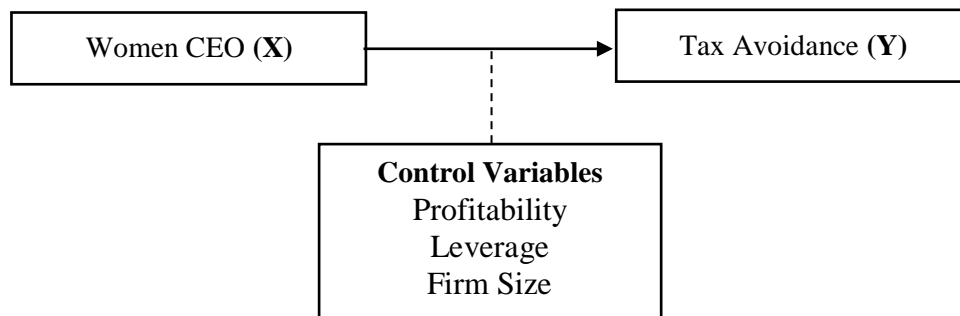


Figure 1 Research Model

METHODS

The approach chosen in this study is a quantitative approach with the causality relationship method. This study explains the impact of the women's gender as chief executive officer (CEO) on tax avoidance in companies listed on the Indonesian Islamic Stock Index (IISI) in 2021-2022. This study has three variables: the independent variable, the dependent variable, and the control variable. The population is all companies listed on the Indonesian Islamic Stock Index from 2021 to 2022, as much as 403 firms. This period was chosen because it is intended to include company information for the most recent period, so the study's results can represent the latest state of the company under study. The data collection technique used in this study is the quota sampling technique. The desired sample to be selected is 175 companies and observation to 2 years, a total sample of 350 data observations.

The independent variable in this study is the women's CEO as the company's chief executive officer (CEO). The independent variables in this study were calculated using a dummy. The calculation of the dummy in the measurement of this study was carried out by giving a value of 1 to the CEO who was occupied by a woman and a value of 0 for the CEO who was occupied by the male gender. The dependent variable in this research is tax avoidance. The dependent variable in this study is measured by using the company's effective cash tax rate or CURRENT ETR, where the cash-out payment for tax financing has been divided by profit before tax or earnings before income tax. CURRENT ETR in this study is multiplied by -1 first because it shows that a number closer to 0 has a greater possibility of tax avoidance. To control for other factors that are thought to impact tax avoidance, the control variables used in this study are leverage, profitability, and firm size. In this study, several analytical techniques are used by researchers, including descriptive statistical analysis, normality test, multicollinearity test, heteroscedasticity test, ordinary least squares (OLS) regression test, and statistical partial t-test, which can be tested using IBM SPSS software. This study has many observations that can lead to the possibility of outliers, distortion, and interference because some data have numbers that deviate far from the average of other data.



RESULTS AND DISCUSSIONS

Descriptive Statistics

Descriptive analysis provides and displays statistical information related to the variables used in this study, namely tax avoidance, women CEOs, profitability, leverage, and firm size. Descriptive analysis displays statistical information regarding each research variable's minimum value, average value (mean), median value, maximum and minimum value, and standard deviation value. The analysis in this study is illustrated in Table 1. The leadership of women CEOs in the company is calculated using a dummy variable, namely by giving a score of 1 for CEOs led by women and 0 for CEOs led by men. Tax avoidance is measured through the cash effective tax rate obtained by an average data value of 21.96% of all companies that do tax avoidance. The lowest value of tax avoidance is 0.00, owned by ATAP, which shows that the company does not practice tax avoidance. The highest value of the tax avoidance variable is 0.9429, owned by GEMA in 2022, which shows that the company tends to practice tax avoidance.

Table 1 Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Women CEO	350	0	1	0.09	0.287
Tax Avoidance	350	0.0000	0.9429	0.219665	0.1416307
Profitability	350	0.0010	7.5970	0.503258	0.9365980
Leverage	350	0.0004	0.5134	0.118374	0.1125266
Firm Size	350	0.0220	35.9120	3.380871	5.4420133
Valid N	350				

Source: secondary data (processed, 2023)

Normality

The normality test is used to see whether residual values are normally distributed in the regression. The Normal P-Plot graph is enabled to be able to test the normality of research data. If the points cannot follow the direction of the diagonal line, then the regression model does not meet the normality assumption. The results of the normality test in this study are shown in Figure 2. It can be seen that the data in this study have spread and followed the direction of the diagonal line; therefore, it can be stated that the Normal P-Plot graph shows that the data in this normality test have been normally distributed.

Multicollinearity

Multicollinearity is a condition where the independent variables in the regression test have a significant correlation. Multicollinearity is declared not to occur if it has a tolerance value > 0.1 and a VIF value < 10 . The results of the multicollinearity test in this study are shown in Table 2. It can be seen that the independent variable, namely women CEOs, and the control variables, namely profitability, leverage, and firm size, have a tolerance value of more than 0.10 and a VIF value below 10. The results of this test show that it is free from multicollinearity; conclusions can be drawn if the assumption of non-multicollinearity has been met in this study.



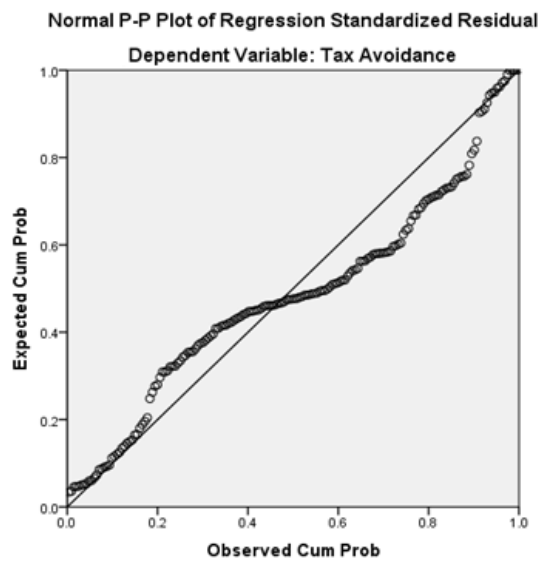


Figure 2 Normality Results
Source: secondary data (processed, 2023)

Table 2 Multicollinearity Results

Model	Tolerance	VIF
Women CEO	0.970	1.031
Profitability	0.917	1.091
Leverage	0.987	1.013
Firm Size	0.913	1.096

Source: secondary data (processed, 2023)

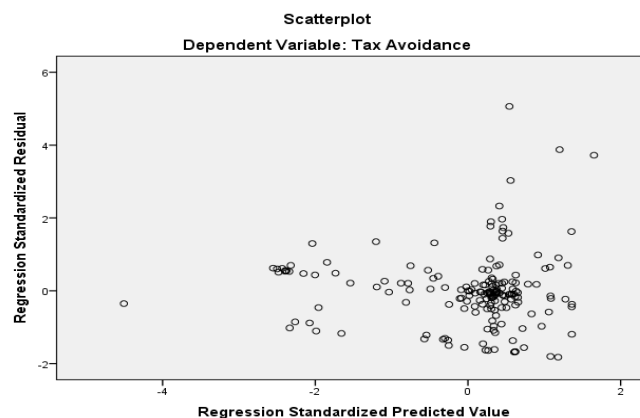


Figure 3 Heteroscedasticity Results
Source: secondary data (processed, 2023)

Heteroscedasticity

The heteroscedasticity test is used to test whether or not there is a relationship between the confounding and independent variables. In this study, the heteroscedasticity test will be carried out by looking at the scatterplot pattern. Regression cannot have heteroscedasticity if the scatterplot does not form a specific pattern or does not spread. The results of the normality test in this study are shown in Figure 3. In this image, the scatterplot diagram shows that the dots



are spread out, do not form a distinctive pattern, and do not collect, so it can be concluded that there are no symptoms of heteroscedasticity in this study, so there is no relationship between confounding variables and independent variables in the study.

Hypothesis

The analysis technique used in this study is the ordinary least squares (OLS) regression analysis technique. This analysis is used to see the direction and level of significance of the relationship between the independent and dependent variables in the study simultaneously. The type of hypothesis testing used in this study is the coefficient of determination (r-square) and the partial test (t-statistic). The statistical t-test in this study was used to determine the effect of the leadership variable of the women CEOs in the company as the independent variable on the variable of tax avoidance or tax avoidance as the dependent variable. Statistical t-test results are shown in Table 3.

Table 3 Hypothesis Results

Model	B	t-Statistic	Sig.
(Constant)	0.228	12.905	0.000
Women CEO	-0.087	-2.352	0.020
Profitability	-0.021	-1.815	0.071
Leverage	0.100	1.065	0.288
Firm Size	0.000	-0.221	0.826
Adjusted R Square			0.033

Source: secondary data (processed, 2023)

Based on Table 3, it can be seen that the constant (α) or constant value in this study is 0.228, which means that if there are no other variables, the value of tax avoidance is 0.228. The coefficient value on the independent variable, namely the leadership of the women CEO in the company, is 0.087 and is negative. It can indicate that the independent variables above have the opposite relationship with tax avoidance. The significance value of this independent variable is less than 0.005, so it can be said that the leadership of the women CEOs in the company has a negative and significant effect on tax avoidance (H_1 is accepted).

It can be seen that the value of the firm size and leverage coefficients as control variables in this study are 0.000 and 0.100, respectively. It may show that firm size and leverage can control independent variables concerning tax avoidance, and the direction of the relationship is positive. However, the relationship is not significant, meaning it is not predictable that firm size and leverage will continue to determine the relationship between the independent and dependent variables. With each increase in profitability, the tax avoidance variable will increase by 0.100, assuming that the other variables are constant. However, profitability as a control variable has a negative coefficient value of -0.021, which means that with every increase in profitability in the company, the tax avoidance variable will decrease by 0.021.

The coefficient of determination test is a test to measure the model's ability to explain related variables. The R-square adjustment value indicates the coefficient of the determination test. Based on Table 3, the first model regression



has an Adjusted R Square by 0.033. It shows that the first model's predictor variables (independent and control variables) can explain the dependent variable, namely tax avoidance of 3.3%, while other variables explain the remaining 96.7%.

Women CEOs' Influence on Tax Avoidance

The study results show that the leadership of the women CEOs in the company has a significant negative effect on tax avoidance. The results of this study are in line with the hypotheses that were built and are in line with the results of previous research conducted by Laub (1999), which states that the leadership of a woman's chief executive officer (CEO) has a significant negative effect on tax avoidance because women's characteristics tend to be more law-abiding. Likewise, research by Jarboui, Saad, and Riguen (2020) found that women CEOs have a negative effect on tax avoidance.

The effect of variable control, namely leverage, firm size, and profitability from the study, contributes to the influence of the leadership of a woman's CEO on tax avoidance activities. However, the relationship is insignificant, so it can be concluded that leverage, firm size, and profitability can consider the leadership of a woman's CEO in carrying out tax avoidance activities. However, variable leverage, firm size, and profitability are not always considered.

Leverage is only sometimes a concern for the leadership of a woman's CEO in conducting tax avoidance activities. Leverage is a reflection of the company in managing equity and liabilities, so it has become a standard that needs to be considered by management so that its business activities continue to run. The leverage relationship is the company's performance so that to carry out tax avoidance leverage activities can only provide an overview of companies having large or small obligations; regardless of that, with significant leverage, the company can benefit because the tax burden is getting smaller and is final, it will contribute generously and not burden the company.

Variable control firm size is the size of the company managed by management. The larger the company, the more complex the problem, so the appropriate leadership of a woman's CEO will impact the company's performance. Large firms will also get great company results unrelated to tax avoidance activities. Tax avoidance activities concerning firm size in this study as a variable control of the results obtained control over the leadership of a woman's CEO from a firm size not specific to the size of the company will provide a female mindset in carrying out tax avoidance activities because women have the same characteristics in leading large companies and small companies.

Probability in this study is used as a control variable, meaning that profitability is expected to control the leadership relationship of a woman's CEO to tax avoidance activities. The direction of the relationship from the results of this study is negative, meaning that the more profitability increases, the more tax avoidance activities will decline. However, the direction of the relationship is not significant, meaning that it cannot be indifferent to different company conditions. Researchers use profitability because previous research is a determining variable influencing tax avoidance activities. However, this study did not get sufficient evidence that in the leadership of a woman's CEO, profitability cannot be the primary consideration in making decisions to carry out tax avoidance activities.



The theory used in this study is the upper echelons theory. This theory explains that if top management significantly contributes to performance, one of the performances means maximizing tax payments. Management background can predict the outcome of strategic choices and some performance levels. Through upper echelon theory, Hambrick (2007) explains if leaders' values and cognitions reflect their chosen strategies. Riivari et al. (2012) state that organizational results are a reflection of the values, culture, and cognitive solid base of managers or in other words, demographic characteristics (age, gender, education, tenure) and psychological especially the values of individual managers have an impact on the results of an organization. Based on the definition of the upper echelons theory that has been explained, it can be said that the background of a woman's chief executive officer can influence management decisions in determining tax strategy.

CONCLUSIONS

The conclusions obtained from the discussion in this study are that women leadership who serves as a CEO negatively and significantly affects tax avoidance. This research is expected to add to the literature and be helpful in the development of accounting disciplines, especially in corporate governance in disclosing tax avoidance by companies. The practical implications of this research provide helpful managerial implications for companies as corporate governance in managing strategies and policies related to corporate tax payments. For shareholders, this research serves as information or reference in appointing a company CEO from a gender standpoint. This research has limitations related to CEO profiles, such as information about managers' values, culture, and cognitive base, which are not fully presented in the annual report, so researchers seek information from several sources. Further research can add the CEO's background variable, considered a research variable.

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