

Board Characteristics, CEO Narcissism, and CEO Overconfidence on Tax Avoidance

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ABSTRACT

The primary objective of this research is to assess the degree to which governance characteristics encompassing board independence, gender diversity, and board size, and the psychological dispositions of top executives, specifically CEO narcissism and overconfidence, exert influence over corporate tax avoidance conduct. A quantitative explanatory methodology is employed, utilizing panel data regression analysis under the Random Effects Model (REM) estimation framework. The research population consists of all non-financial enterprises listed on the Indonesia Stock Exchange (IDX) throughout the 2022–2024 observation period, with purposive sampling procedures generating a refined sample of 248 firms and a cumulative dataset of 744 observations. Empirical results indicate that board size carries a significant negative bearing on tax avoidance, suggesting that organizations with larger boards possess greater capacity to deter managerial tax avoidance behavior. In opposition, CEO overconfidence demonstrates a significant positive association, corroborating the premise that overconfident chief executives are predisposed to adopt increasingly aggressive tax planning approaches. Notably, board independence, gender diversity among commissioners, and CEO narcissism each failed to register statistically significant effects on tax avoidance. Collectively, these findings highlight the critical importance of fortifying formal supervisory mechanisms within organizational governance structures as a means of mitigating the adverse influence of executives' psychological characteristics on strategic financial decision-making.

Keywords: Board Characteristics; CEO Narcissism; CEO Overconfidence; Tax Avoidance



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INTRODUCTION

As a primary source of governmental revenue, taxes are an essential part of Indonesia's fiscal policy (Zuhad et al., 2024). Taxes serve as a fundamental source of government revenue and are essential for regulation that fosters growth and sustains macroeconomic stability (Denysenko, 2024). This

aligns with statistical data showing that tax revenues in 2021-2025 consistently exceeded non-tax state revenues.

Table 1. Realization of State Revenue (Billion Rupiah) 2021-2025

Year	Tax Revenue	Non-Tax Revenue
2021	1.547.841,10	458.493,00
2022	2.034.552,50	595.594,50
2023	2.118.348,00	515.800,90
2024	2.309.859,80	492.003,10
2025	2.387.281,80	477.227,90

Source: www.bps.go.id (2026)

Nevertheless, Indonesia's tax collection remains suboptimal, as indicated by a tax-to-GDP ratio of only 10.07% in 2024. This amount is lower than the 2023 GDP tax ratio of 10.31% (Handoko, 2019). As reported by kontan.co.id (2024), the Ministry of Finance noted that corporate income tax (PPH) remained the main source of tax revenue through April 2024. Conversely, the government and corporations possess divergent interests in the implementation of an increased tax ratio. For the corporate sector, the tax burden is often viewed as an operational cost that can erode corporate profitability, so management exploits regulatory loopholes to minimize tax contributions, leading to tax avoidance (Karina et al., 2024). In this case, opportunistic behavior can be triggered by conflicts of interest between principals and agents, as posited by agency theory (Jensen & Meckling, 1976). The CEO acts as an agent whose decisions significantly affect the company's tax strategy (Bauer et al., 2018). By influencing company policies and outcomes, the CEO's personality traits significantly shape strategic choices within the organization (Osei Bonsu et al., 2024). One trait associated with business tax evasion is CEO narcissism (Araújo et al., 2020). Excessive self-admiration and a drive for control are characteristics of a narcissistic CEO, who also tends to plan aggressive tax strategies (Mira et al., 2025).

In addition to narcissism, another personality characteristic that also affects tax avoidance is CEO overconfidence (Sagita et al., 2024). In agency theory, CEO overconfidence affects tax avoidance by leading to riskier decision-making (Hsieh et al., 2018). This is because the CEO's overconfidence leads him to believe he has great control and that the decisions he makes will always result in good performance (Tuljannah & Helmy, 2023). This belief encourages overconfident CEOs to make aggressive, high-risk investments that require greater financial resources (Hsieh et al., 2018). To meet these cash flow needs, overconfident CEOs will try to generate higher income levels. One way is to implement tax avoidance practices that can reduce corporate tax liabilities and provide additional funds for investment projects (Hsieh et al., 2018). In addition to managerial personality factors, internal supervisory mechanisms such as the characteristics of the board of commissioners, which are represented through the level of independence, gender diversity, and board size, have an important role in improving supervision and monitoring to reduce tax aggressiveness by management (Pandapotan et al., 2024). Under agency theory, the board of commissioners can mitigate conflicts of interest between shareholders and management, leading to more transparent financial practices. Because the board of commissioners is supposed to put shareholders' interests first and ensure compliance with tax laws, this oversight can reduce the likelihood of tax evasion (Achmad et al., 2023).

However, previous research examining the impact of executive behavioral biases and board governance mechanisms on tax avoidance shows inconsistent and contradictory findings. On the one hand, Salehi et al. (2024) and Rahayu & Wahyudi (2025) confirmed that an independent, gender-diverse board structure effectively reduces tax aggressiveness, suggesting that diverse and independent oversight strengthens ethical governance. On the other hand, Pandapotan et al. (2024) found that independence, female commissioners, and board size do not appear to contribute to tax

avoidance, implying that formal board composition may not lead to substantive oversight in certain institutional contexts. This contradiction is particularly relevant in Indonesia, where independent commissioners are often appointed to meet regulatory thresholds, rather than to exercise genuine oversight. Similarly, in the study of executive psychological characteristics, Kalbuana et al. (2023) show that higher levels of CEO narcissism correlate with greater tax avoidance, in line with agency theory predictions that agents use information advantages to pursue personal interests, including aggressive tax strategies. Likewise, Souguir et al. (2024) demonstrated a positive connection between tax avoidance and CEO overconfidence. However, Sari et al. (2024) and Sugiono & Anggraeny (2022) did not find a significant relationship, which suggests that institutional constraints or governance mechanisms may moderate or suppress the association between CEO psychological attributes and tax behavior.

To address these theoretical gaps, this research comprehensively analyzes the influence of board characteristics and CEO psychological traits towards tax avoidance, among non-financial firms publicly listed on the Indonesia Stock Exchange (IDX) over the period 2022-2024, supplemented by including firm size, debt ratio, and capital intensity as control variables to isolate biases in the statistical estimates. Through such tests, this study helps expand the literature on corporate management and behavioral accounting. It provides relevant empirical insights for Indonesian tax policy by offering actionable insights in strengthening formal oversight mechanisms to reduce aggressive tax planning driven by executive cognitive biases.

THEORETICAL FRAMEWORK AND HYPOTHESES

This research is based on agency theory, whereby corporate tax avoidance arises from informational asymmetry and the conflicts of interest among shareholders as principals and management or the CEO as agents (Chen, 2023). In the context of taxation, agents have an incentive to maximize their personal interests through opportunistic actions, such as aggressive tax avoidance (Kalbuana et al., 2023). To mitigate this opportunistic behavior, the effectiveness of the supervisory function of the board of commissioners is needed, as well as an in-depth understanding of the CEO's psychological biases that directly affect the company's strategic policies (Ghozali, 2020). From an agency theory perspective, tax avoidance is a manifestation of principal-agent conflict, in which managers exploit information asymmetry to implement policies that prioritize their own interests at the expense of shareholders. Independent commissioners, as external supervisors unaffiliated with management, are theoretically well-positioned to reduce these asymmetries by implementing supervisory mechanisms (Azmi et al., 2024). When a greater percentage of independent commissioners are observed on the board of commissioners, their capacity to scrutinize managerial decisions within the board's supervisory structure will increase, including the objectivity of monitoring management policies, thereby suppressing overly aggressive tax avoidance practices (Rahayu & Wahyudi, 2025). Chen et al. (2025) and Hasan et al. (2024) confirm that board independence is highly effective in curbing corporate tendencies toward aggressive tax avoidance, thereby supporting the oversight role proposed by agency theory.

H1: The independence of the board of commissioners hurts tax avoidance.

Based on agency theory, effective board oversight requires not only independence but also a diversity of perspectives that can challenge management decisions. The involvement of women on the board of commissioners can enhance monitoring effectiveness and encourage regulatory compliance, thereby narrowing the gap for management to engage in tax avoidance (Lanis et al., 2017). The inclusion of women on the board of commissioners is considered to enhance board effectiveness by broadening the range of experience, expertise, and perspectives represented (Soesetio et al., 2024). This effect is attributed to the tendency of female board members to be increasingly averse to risk and to demonstrate elevated moral and ethical standards in financial decision-making. Prior findings from Salehi et al. (2024), Khan et al. (2022), and Dakhli (2022)

demonstrate that a higher percentage of women on corporate boards is significantly correlated with lower levels of tax avoidance.

H2: Gender diversity of the board of commissioners hurts tax avoidance.

Agency theory: the board of commissioners serves mainly as an internal governance mechanism that shareholders use to monitor management behavior. The size of the board affects the supervisory capacity of management actions; a larger board size is considered more favorable because it brings a broader range of expertise, experience, and skills among its members. This diversity of oversight capacity will directly improve the firm's financial transparency by effectively monitoring management actions. Ultimately, the close supervision of this board structure will suppress the exploitative behavior among executives, including minimizing the extent of tax avoidance (Ali et al., 2024). Research findings published by Salehi et al. (2024) and Ali et al. (2024) Ali et al. (2024) reveal that a larger board of directors could mitigate tax avoidance, reflecting agency theory that stronger supervisory mechanisms reduce agent opportunism.

H3: Board size hurts tax avoidance.

Agency theory contends that a CEO, as an agent, can exploit his position to take actions that benefit himself, notably through tax avoidance practices that can make the company's financial performance appear better (Nurfarida & Andriani, 2025). CEO narcissism can strengthen this opportunistic behavior because CEOs with narcissistic traits tend to try to maintain a favorable appearance and obtain support from external parties (Darwin et al., 2024). Narcissism itself is a personality trait characterized by an excessive belief in one's own importance, a need for adoration, and a lack of compassion for others (Buchholz et al., 2020). In the context of leadership, narcissistic CEOs often prioritize short-term results to enhance their personal reputation among stakeholders (Sarwono & Fadjarenie, 2025). With reference to agency theory, such actions are seen as the CEO's attempt to maximize his personal interests by using his information and power. Narcissistic CEOs often consider themselves superior and entitled to greater results, so they do not hesitate to make high-risk decisions, including those related to tax avoidance. Tax avoidance is undertaken as an opportunistic strategy to reduce corporate tax burdens, increase accounting profit, and strengthen the image of good performance in the eyes of shareholders (Pandapotan et al., 2024). Numerous studies, including those by García-Meca et al. (2021), Araújo et al. (2020), and Sari et al. (2024), indicate that narcissistic CEOs display elevated rates of tax avoidance.

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

CEO overconfidence is a psychological bias in which executives overestimate their abilities and are overly optimistic in estimating investment returns (Karavitis et al., 2025). They feel they have strong control over the outcome of every decision and believe their decisions will always lead to good performance (Tuljannah & Helmy, 2023). This bias encourages CEOs to make high-risk investments and expansions that require greater financial resources (Hsieh et al., 2018). To meet these funding needs, overconfident CEOs will seek to generate higher income levels (Tuljannah & Helmy, 2023). One way is to implement tax-avoidance practices that reduce corporate tax liabilities and provide additional funds for investment projects (Hsieh et al., 2018). Thus, tax avoidance should perhaps be interpreted as a tax efficiency strategy by the CEO to increase profits and meet performance expectations (Sugiono & Anggraeny, 2022). This describes, with reference to agency theory, managers' opportunistic actions to maximize personal interests by exploiting company policies (Tuljannah & Helmy, 2023). This exploitative action, according to Souguir et al. (2024) and Sutrisno et al. (2022), is strongly connected to an increase in the aggressiveness of tax avoidance practices within the company.

H5: CEO overconfidence has a positive effect on tax avoidance.

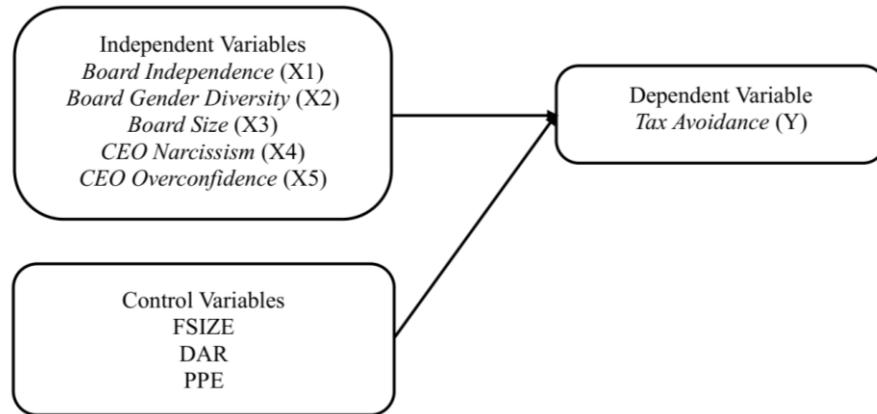


Figure 1. Theoretical Framework
Source: Processed Data, 2025

METHODS

A quantitative methodology was adopted, drawing on secondary data derived from corporate annual reports. The population consisted of all non-financial firms registered on the Indonesia Stock Exchange (IDX) from 2022 to 2024. Sample extraction utilizing the purposive sampling method with the subsequent criteria: (1) non-financial firms continuously listed throughout the observation period, (2) produced complete and comprehensive annual reports in rupiah currency, (3) are not subject to final income tax regulatory schemes such as the property, construction and shipping sectors, and (4) have a positive tax expense and profit before tax which results in a reasonable ETR range between 0 and 1. Based on this selection process, the final sample of 248 companies yielded 744 observations over three years.

Table 1. Research Population and Sample Selection

No.	Description	Number
	Population	
1.	Non-financial companies listed on the Indonesia Stock Exchange for the period 2022-2024	827
	Sample Criteria:	
2.	Non-financial companies that are consistently listed during the observation period.	(120)
3.	Companies that publish complete and comprehensive annual reports in rupiah currency.	(76)
4.	Companies that are not subject to the final income tax regulatory scheme.	(77)
5.	Companies with tax loss or expense and positive profit before tax.	(306)
	Total number of companies that meet the criteria	248
	Year of observation	3
	Total sample (248 x 3)	744

Source: Research Data (2026)

The dependent variable in this research is tax avoidance, and the independent variable comprises governance board characteristics, namely board independence, gender diversity, and board size. And the behavioral aspects, namely, CEO narcissism and CEO overconfidence. The test is strengthened by three control variables, namely firm size, leverage, and capital intensity. The definitions of ratios and operational measurement scales are summarized systematically in Table 2.

Table 2. Operational Variables

Variable	Indicator	Scale	Reference
ETR	Tax expense divided by company profit	Ratio	Kalbuana et al. (2023)
BIND	Total independence commissioners divided by total commissioners	Ratio	Pandapotan et al. (2024)
BGD	Total female commissioners divided by total commissioners	Ratio	Salehi et al. (2024)
BSIZE	Total members of the board of commissioners	Ratio	Ali et al. (2024)
NAR	1: If the CEO's photo is not shown. 2: If the CEO's photo is shown together with one or more fellow executive colleagues. 3: if the CEO's photo is shown on no more than half a page. 4: if the CEO's photo is shown on more than half a page, with text occupying part of that space. 5: if the CEO's photo is shown on a full page.	Ordinal	Araújo et al. (2020)
OVER	Dummy variable of overinvestment: residual derived from the regression of asset growth and sales growth. '1' if it meets the criteria, '0' otherwise.	Nominal	Dayuningtyas & Rahmiati (2020)
FSIZE	Natural logarithm of total assets.	Ratio	Hasan et al. (2024)
DAR	Total assets divided by total assets.	Ratio	Hsieh et al. (2018)
PPE	Total fixed assets divided by total assets.	Ratio	García-Meca et al. (2021)

Source: Research Data (2026)

The data analysis phase was conducted using panel data regression tools in EViews 12. The analytical procedure commences with descriptive statistical tests to examine the data distribution. The regression estimation model is established using the Chow Test, Hausman Test, and Lagrange Multiplier Test. The last stage involves hypothesis testing conducted by a partial test (t-test) and a coefficient of determination test (Adjusted R²) at a significance level of 5%, with the panel data regression equation articulated as shown below:

$$ETR_{it} = \alpha + \beta_1 BIND_{it} + \beta_2 BGD_{it} + \beta_3 BSIZE_{it} + \beta_4 NAR_{it} + \beta_5 OVER_{it} + \beta_6 ROA_{it} + \beta_7 DAR_{it} + \beta_8 PPE_{it} + \varepsilon_{it}$$

Notes:

- ETR : Tax Avoidance
 α : Constant
 β_1 - β_8 : Regression Coefficient
 BIND : Independence of the Board of Commissioners
 BGD : Gender Diversity of the Board of Commissioners
 BSIZE : Board of Commissioners Size
 NAR : CEO Narcissism
 OVER : CEO Overconfidence
 FSIZE : Company Size
 DAR : Leverage
 PPE : Capital Intensity
 ε : Error term
 t : Cross-sectional data
 i : Time series data

RESULTS AND DISCUSSION

This analysis examines the variables of board characteristics, narcissism, and CEO overconfidence. The research uses data from the Indonesia Stock Exchange (IDX) for the period 2022-2024 across all industrial sectors. The industrial sector is divided into 9 industries: basic materials, consumer cyclicals, consumer non-cyclicals, energy, health care, industrials, infrastructure, technology, and transportation & logistics. The types of industrial sectors and the percentage distribution of companies are presented in Table 3 below.

Table 3. Company Distribution by Sector

Sector	Number of data	Percentage (%)
Basic Materials	117	16%
Consumer Cyclical	141	19%
Consumer Non-Cyclicals	201	27%
Energy	45	6%
Healthcare	51	7%
Industrials	78	10%
Infrastructure	45	6%
Technology	33	4%
Transportation & Logistics	33	4%
Total	744	100%

Source: Excel (2026)

Descriptive statistics were computed to characterize the data distribution, including the minimum, maximum, median, and standard deviation of the 744 observational data points. The summarized results are presented in Table 4.

Table 4. Descriptive Statistical Analysis

Variables	Mean	Max.	Min.	Std. Dev.
ETR	0,239	0,943	0,005	0,105
BIND	0,430	0,833	0,250	0,111
BGD	0,160	1	0	0,210
BSIZE	3,774	12	2	1,722
NAR	4,099	5	1	1,362
OVER	0,297	1	0	0,457
ROA	28,542	33,790	24,695	1,827
DAR	0,384	2,642	0,025	0,243
PPE	0,354	1,194	0,0003	0,229

Source: Eviews (2026)

Looking at Table 4, the ETR variable has a mean of 0.239 (23.9%), which is slightly above Indonesia's normal corporate tax rate of 22%. These results collectively suggest that the majority of firms in the sample have a generally favorable disposition toward tax compliance, as evidenced by their consistently low tendency to resort to tax avoidance strategies, indicating relatively responsible fiscal conduct among the observed corporate entities. The ETR standard deviation (0.105), which is smaller than the average, indicates a homogeneous distribution of the data. The BIND variable recorded an average proportion of independent commissioners of 43%, meeting OJK regulations. However, the minimum BIND value of 0.250 indicates that some companies still violate the 30% regulatory limit. The BGD variable records an average female representation of 16% and a minimum

value of 0.00, which shows that most corporations do not have female commissioners. In the variable NAR, the average of 4.099 indicates that the majority of CEOs have high visual narcissism. In contrast, the average OVER (0.297) indicates that 29.7% of leaders are overconfident in investment activities. The best panel data regression model is determined by sequentially running the three model tests in Table 5.

Table 5. Model Test Selection Results

Effects Test	Prob.
Cross-section Chi-square	0,0000
Cross-section random	0.7736
Breusch-Pagan	0.0000

Source: Eviews (2026)

Based on the model testing results in Table 5, the Random Effect Model (REM) is the best estimation model used in this study. The REM model is estimated using the *Generalized Least Squares* (GLS) approach (Widarjono, 2005). According to Gujarati & Porter (2009), the GLS approach is essentially an Ordinary Least Squares (OLS) regression on variables that have been transformed to meet the basic least squares assumptions. This transformation specifically exploits serial correlation in the error components, so that structural problems in panel data, such as autocorrelation and heteroscedasticity, are corrected in the variance-covariance matrix. As GLS constitutes a corrective analytical procedure designed to directly generate estimators that are both unbiased and of minimum variance, properties collectively embodied in the Best Linear Unbiased Estimator (BLUE) criterion, therefore, this study does not conduct a separate classical assumption test, in accordance with the econometric properties of the GLS-based REM estimator.

Table 6 presents the findings from hypothesis testing conducted via panel data regression analysis, using the Random Effects Model (REM) as the estimation approach.

Table 6. Panel Data Regression Analysis Test Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	0,582	0,088	6,593	0,000
ID	0,011	0,041	0,267	0,789
KBD	-0,016	0,022	-0,737	0,461
UD	0,007	0,003	2,099	0,036
NAR	0,003	0,003	0,807	0,420
OC	-0,020	0,008	-2,519	0,012
UP	-0,015	0,003	-4,335	0,000
DAR	0,121	0,020	6,092	0,000
PPE	-0,016	0,021	-0,766	0,444

Source: Eviews (2026)

The panel data regression equation formed based on the estimation results is as follows:

$$ETR_{it} = 0.582295 + 0.010853 \text{ BIND}_{it} - 0.016345 \text{ BGD}_{it} + 0.007097 \text{ BSIZE}_{it} + 0.002601 \text{ NAR}_{it} - 0.019746 \text{ OVER}_{it} - 0.014635 \text{ FSIZE}_{it} + 0.121132 \text{ DAR}_{it} - 0.016225 \text{ PPE}_{it} + \varepsilon_{it}$$

As evidenced by the figures in Table 4, the independence of the board of commissioners does not exert a statistically significant influence on tax avoidance practices, implying that independent board members are more inclined to direct their supervisory attention toward management policies governing organizational earnings and operational performance. Furthermore, these results indicate that the independence of the board of commissioners cannot be demonstrated, or that there is a lack of supervision over the activities of companies engaged in tax avoidance. The aforementioned

condition is attributable to the concentrated nature of the data distribution, in which approximately 43% of the observations fall exactly at the minimum regulatory requirement of 30% set by the Financial Services Authority (OJK). The aforementioned finding implies that the appointment of independent commissioners within corporate board compositions is predominantly motivated by the fulfillment of formal administrative obligations and regulatory mandates, rather than reflecting a genuine commitment to effective governance oversight, without being accompanied by providing optimal independent access to assess, monitor, and evaluate strategic tax policies designed by management. In the agency theory framework, the supervisory function of the independent board of commissioners, which is assumed to suppress information asymmetry and limit agents' opportunistic actions, has not been effective in tax supervision. This conclusion is aligned with the preceding studies conducted by Pandapotan et al. (2024) and Rahayu & Wahyudi (2025), which assert that the ratio of independent commissioners does not determine the level of aggressiveness of corporate tax management.

Gender diversity within the board of commissioners fails to exert a statistically significant influence on tax avoidance. Suggesting that the involvement of women within the board does not suppress or increase the company's tax avoidance strategy. Given that, empirically, more than half of the sample companies had no female members on their boards of commissioners. This imbalance in representation causes varied supervisory perspectives, moral attitudes, and risk-averse characteristics that are theoretically inherent in women to fail to become a dominant voice in the decision-making process of tax tactics. While Agency Theory posits that gender diversity enhances transparency and ethical governance, thereby mitigating agents' aggressive conduct, empirical evidence indicates that women's contributions are insufficient to influence corporate taxation policy. This is because diverse perspectives and increased scrutiny on corporate behavior that is more ethical and compliant with regulations do not adequately represent the company's overall strategic decisions. The conclusions of this analysis corroborate those of Giannopoulos et al. (2025), who similarly concluded that the presence of gender diversity on corporate boards neither hinders nor enhances corporate tax tactics.

The size of the board of commissioners has been empirically shown to be significantly and inversely related to the adoption of tax avoidance tactics within organizations. To operationalize the concept of tax avoidance in this research, the Effective Tax Rate (ETR) is adopted as the primary proxy for assessing the extent of avoidance behavior in the observed sample. A positive coefficient of 0.007 in the regression model, where a higher ETR indicates a greater tax burden on profits, which reflects lower tax avoidance behavior. This means that the positive coefficient on BSIZE indicates that each additional board commissioner is associated with an improvement in ETR, which, mathematically, implies a reduction in tax avoidance aggressiveness. The aforementioned conclusion is further supported by descriptive data indicating that corporations with a significant number of commissioners consistently exhibit higher tax compliance. This finding supports the theory that a larger size offers a more extensive amalgamation of talent, experience, and oversight capabilities. The tight oversight of an extensive board structure effectively reduces knowledge asymmetry and curtails managers' opportunistic conduct in aggressive tax strategies. The outcomes of these studies align with observations reported by Salehi et al. (2024) and Ali et al. (2024). CEO narcissism had no significant impact on tax avoidance strategies. CEO narcissistic tendencies, measured through visual indicators such as the relative dimensions of the CEO's photograph in corporate financial disclosures, are not significantly associated with the company's tax avoidance strategies. The data distribution indicates a pronounced concentration in the high-narcissism category, with around 60% of the observed data scoring highest on the annual report visual prominence measure. This phenomenon indicates that the narcissistic nature of executive leadership, characterized by arrogance and a need for self-image exploitation, does not always underlie the entity's tax decisions. Agency Theory explains that CEOs, as agents, can act opportunistically for the sake of short-term reputation. Still, in this case, external factors beyond narcissistic character may be more dominant in limiting corporate tax aggressiveness. These findings are in line with the conclusions of studies by Karina et al. (2024) and Muhlis (2024).

Empirical evidence demonstrates that CEO overconfidence has a positive and significant effect on tax avoidance tactics. Declining levels of CEO overconfidence within an organization are associated with reduced tax avoidance, whereas increased executive overconfidence is associated with a heightened propensity for tax avoidance. The regression results indicate that this variable has a coefficient of -0.019746 on ETR, where a smaller ETR indicates a relatively lower tax burden relative to profit. This negative coefficient indicates that an increase in executive overconfidence encourages greater tax-avoidance aggressiveness. According to agency theory, CEO overconfidence can cause misalignment between managerial interests and shareholder value because overconfident leaders exhibit a strong optimism bias when assessing their ability to carry out high-risk, aggressive investment policies (overinvestment), which require greater financial resources. To address cash flow requirements, overconfident CEOs adopt tax-avoidance mechanisms to minimize corporate tax liabilities. This result successfully strengthens previous empirical findings from Sutrisno et al. (2022) and Souguir et al. (2024).

As displayed in Table 7, the coefficient of determination (R^2) is employed to assess the degree to which variations in the dependent variable can be attributed to the independent variables included in the model.

Table 7. Test Results of the Coefficient of Determination

Description	Value
R-squared	0,065
Adjusted R-squared	0,055

Source: Eviews (2026)

According to Table 5, the Adjusted R-Square value is 0.055924, implying that the combined governance and leadership psychology independent variables explain 5.5% of the variation in corporate ETR movement. Although relatively low, this is in line with empirical research on taxation in emerging markets. This highlights that corporate tax avoidance in Indonesia is likely strongly influenced by complex, unobserved external factors, such as the prevailing regulatory environment, dynamic changes in tax amnesty policies, industry-specific tax incentives provided by the government, and corporate political connections, which are beyond the scope of this model.

CONCLUSION

These findings indicate that board size has a negative and significant effect on tax avoidance behavior, suggesting that adequate board capacity helps suppress aggressive tax tactics. In contrast, exhibits a positive and significant relationship: executive leaders with excessive confidence tend to exploit tax loopholes to fund their companies' investment decisions. Meanwhile, the variables of board independence, gender diversity, and CEO narcissism failed to exert a meaningful influence on tax avoidance, indicating that the presence of these factors in the sample is more of a regulatory compliance than a real oversight function. The implications of these findings confirm that a strong governance oversight mechanism, through a large-scale board structure, is crucial for mitigating tax risks arising from executive psychological biases. For regulators such as OJK and DGT, governance regulations should be evaluated to ensure they do not focus on quantitative board thresholds but rather integrate indicators of supervisory quality. For companies, fulfilling formal independence requirements is not enough to mitigate risk, it is necessary to optimize the board's composition with specific expertise. For investors, it is recommended to integrate indicators of CEO overconfidence behavior into the assessment of investment feasibility. The pattern of capital expenditure that consistently exceeds the industry average can serve as a warning sign of potential aggressive tax avoidance, which may ultimately jeopardize the company's long-term sustainability.

This study is subject to certain limitations, particularly in how CEO narcissism was operationalized, relying on the relative size of the CEO's image appearing in the company's annual report as a proxy

measure. The low Adjusted R^2 value of 5.5% indicates that this model captures only a small portion of the variation in corporate tax avoidance. For future literature development, future researchers are advised to add proxy variables for CEO narcissism (the CEO's prominence in the company's press releases, CEO remuneration, and CEO awards, recognitions, and honors received), extend the range of observation periods and explore the addition of corporate governance variables and other financial ratio indicators that are strongly suspected to be the main determinants of tax avoidance policies.

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