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| RESEARCH ARTICLE

The Moderating Earnings Management on the Impact of CEO Narcissism, Sales Growth, and Profitability on Tax Avoidance

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| ABSTRACT
The purpose of this study is to indicate the effect of CEO narcissism, sales growth, and profitability proxied by Return On Assets (ROA) on tax avoidance with earnings management as moderating variable in manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2019. This study relies on secondary data obtained from annual reports from the official website of the Indonesia Stock Exchange, namely www.idx.co.id. The sample is selected based on certain criteria, with 57 companies obtained. Data analysis was performed by panel data regression. The findings of this study indicate that earnings management can moderate the relation between CEO narcissism and sales growth on tax avoidance. The role of earning manipulation activities strengthens the CEO of the company to carry out tax avoidance activities. Earnings management also plays a role in sales variables closely related to profit and taxes. Meanwhile, CEO narcissism, sales growth, and profitability had no significant effect on tax avoidance, and earnings management cannot moderate the relationship between profitability and tax avoidance. Company in doing tax avoidance does not always consider Return on Asset or caused by other reasons.

| KEYWORDS

CEO Narcissism, Sales Growth, Profitability, Earnings Management, Tax Avoidance

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1. Introduction

Tax avoidance is a secure and legal strategy issued by taxpayers to reduce the tax burden by not violating the law (Waluyo, 2018a) and is managed by leveraging existing loopholes. In general, businesses use minimization to improve the efficiency of their tax burden, which eats up profits (Waluyo, 2018b). Taxes, on the other hand, are a source of income for governments to fund the development of the country, providing public facilities and infrastructure not provided by the private sector. Governments because taxes play a huge role in the state budget. Try to maximize the collection while being constrained by the minimization activity. One of the reasons Indonesia's tax revenues are low is that tax avoidance practices are becoming more and more common. According to State of Tax Justice 2020, data tax avoidance in Indonesia costs the country Rp 68,7 trillion, Rp 67,6 trillion due to corporate tax evasion and Rp 1,1 trillion due to individual taxpayers (Cobham et al., 2020). Technically, several factors influence the minimization activity, but there are four factors: CEO narcissism, determined by the size of the CEO's photo in the company's annual report, and sales growth, determined by comparing annual sales, which have yielded inconsistent results. Profitability is determined using Return on Assets (ROA), and earnings management is determined using discretionary accruals.

There are gaps in previous research. CEO narcissism stems from research by Foster et al. (2009) and Capalbo et al. (2018), who found that CEO narcissism has a bearing on minimization, but the results of the other study were found by Kim (2018). While inconsistent results on the effect of sales growth were found in the research by Wahyuni et al. (2017), sales growth has a positive influence on tax avoidance, but it is different from research by Gems et al. (2018) found that sales growth did not affect tax avoidance. Inconsistency about the effect of profitability found in research by Kraft (2014) and Delgado et al. (2014) that the higher the company's profitability has an impact on the lower ETR (Effective Tax Rate), while Wahyuni et al. (2017) show that profitability has no significant effect on tax avoidance. Amidu et al. (2019) show that earnings management has a significant positive effect on tax avoidance. Positive correlations indicate that companies are avoiding taxes by manipulating profits (Amidu et al., 2019). The ability to manage profits derives from the excellent wisdom of managers in financial reporting (Haga et al., 2021). Companies that minimize their tax burden can do this by adjusting and producing accounting estimates, changing accounting methods, and changing cost and revenue periods. Therefore, yield management can strengthen or weaken the relationships between variables observed in tax avoidance. The purpose of this study is to use a sample of manufacturers listed on the Indonesia Stock Exchange between 2016 and 2019 to determine the impact of CEO narcissism, sales growth, and profitability on tax avoidance; It was to analyze. Since the manufacturing industry belongs to a sector that contributes significantly to tax revenue, we conducted a survey (Ministry of Industry, 2019).

2. Literature Review

This research uses two theories, agency and legitimation theory. Agency theory is a relationship related to management and company owners, where each acts to maximize personal profit (Jensen & Meckling, 1976). While legitimacy is an equalization of perceptions or assumptions, where legitimacy affects a person in acting, and for companies, legitimacy is important because community legitimacy towards the company is an important factor for the development of the company. Ahmad and Sulaiman (2004) state that the theory of legitimacy is based on the notion of the social contract implied between social institutions and society. The theory is needed by institutions to achieve the goal of being congruent with the wider community. Narcissism is closely associated with overconfidence. Narcissistic CEOs are actively seeking dangerous opportunities (Braun et al., 2018). Psychologically, narcissists always reject and despise others. Because narcissists can maintain a sense of superiority within themselves (Park & Colvin, 2015); Ackerman et al., (2017), based on rising courage, narcissists are reluctant to accept expert advice. Therefore, while corporate tax measures are legal, narcissistic CEOs feel that they are beyond the law. This line of thinking is consistent with the idea that CEO narcissism is associated with arrogance, self-interest, dominance, manipulativeness, power-hungry, and hostility (Chatterjee & Hambrick, 2007). Swagerman (2018) revealed that there is a significant positive effect of CEO narcissism on tax avoidance, with CEO duality moderating. O'Reilly et al. (2014), the advantage of photo size is one tool that can be used by company management to make activities and results at the company affect tax avoidance activities and look legitimate. Dyreng et al. (2010) mention that individuals (top executives) influence corporate tax avoidance. CEOs describe themselves through l company financial report (Olsen & Stekelberg, 2016).

Companies can predict how much profit they will benefit from increased revenue through sales growth. Large and stable profits tend to promote corporate tax avoidance. This is because tax avoidance is a significant source of profit and a low-cost source (Armstrong et al., 2015). Companies with relatively stable earnings can earn more credit and have higher fixed costs than companies with volatile earnings (Brigham et al., 2014). Wahyuni et al. (2017) state that profitability is a determinant of tax avoidance, as large companies tend to pay taxes and low-profit companies tend to avoid taxes. Earnings management is defined as an accounting policy or action chosen by managers to achieve specific goals in corporate earnings reporting (Scott, 2009), as revenue management is the manager's decision in selecting and deciding on accounting policies or actual measures that affect a company's profits to achieve multiple objectives in the preparation of financial statements (Religiosa & Surjandari, 2021). According to Belkaoui (2012), earnings management is the behavior of business leaders to increase or decrease profits in an external financial reporting process for the purpose of self-fulfillment

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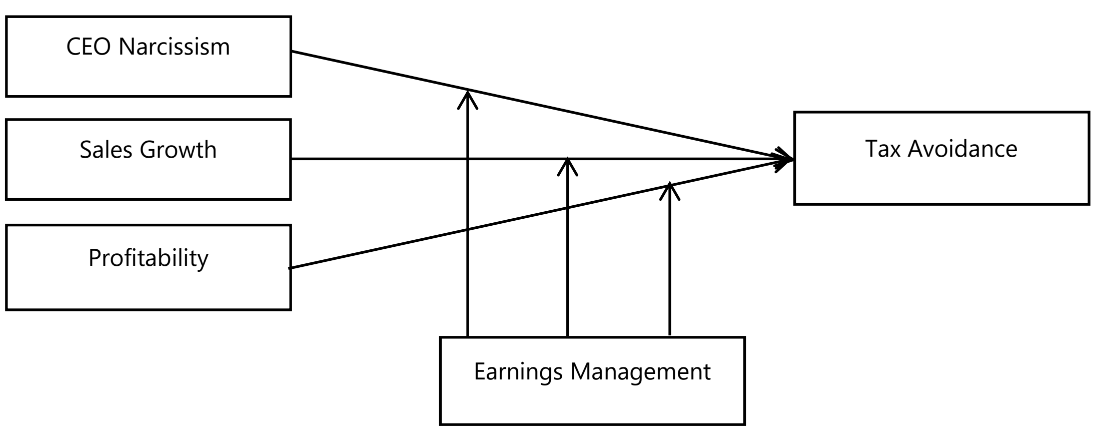

Figure 2.1 Framework of Thinking

3. Methodology

This study is a type of quantitative study based on the positivist philosophy and is included in causal studies aimed at testing established hypotheses and determining efficacy with one or more variables. Determines the causal relationship between and other variables. The purpose of this study is to show the impact of CEO narcissism, sales growth, and profitability proxied by Return On Assets (ROA) on tax avoidance with earnings management as moderating variable. The type of data used is secondary data. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange between 2016 and 2019. The sample size was determined using a target sampling method that may be a sampling method that supports certain criteria applied based on the research purpose. The data source is from the website www.idx.co.id. Data analysis was performed by the panel data regression supported by Eviews version 9.00 within the steps outlined below: 1). Descriptive statistical analysis; 2). Selection of panel data regression model; 3). Hypothesis testing. The operationalization of variables during this research is as follows :

Table 3.1 Variable Measurement Scale

Variables	Indicator	Measurement Scale
Tax Avoidance Reff : (Pohan, 2016), (Fernández-Rodríguez & Martínez-Arias, 2012)	ETR = Tax Expense / Pretax Income	Ratio
Earnings Management Reff : De Angelo, (1986)	TAC it = NI it – CFFO it NDA it = TAC it-$_1$ DA it = (TAC it - NDA it) / TA it	Ratio
Independent :		
CEO Narcissism Reff : (Olsen & Stekelberg, 2016)	5 points if the CEO is alone in the photo and occupies a page 4 points if the CEO is alone on the photo and occupied quite half a page; 3 points if the CEO is alone on the photo and occupied less than half a page; 2 points if the CEO is on the photo with one or more fellow executives; 1 point if the CEO isn't on the photo	Ordinal
Sales Growth Reff : (Weston and Thomas, 2008)	Sales Growth = (Sales $_t$ – Sales $_{t-1}$) / Sales $_{t=1}$	Ratio
Profitability Reff : (Prawironegoro & Purwanti, 2008)	ROA = Pretax Income / Asset	Ratio

Source: data processed by the author

4. Results and Discussion

4.1 Descriptive statistical analysis

Table 4.1 Descriptive Statistical Results

	TA	NAR	SG	PROF	EM
mean	0.213155	3.324561	0.093132	0.088183	-0.000780
median	0.252552	4000000	0.073796	0.061888	-0.002005
Maximum	0.839146	5.000000	0.805083	0.526704	0.466879
Minimum	-5.549171	1.0000000	-0.437574	0.000526	-0.273307
Std. Dev.	0.443724	1.553712	0.144197	0.087122	0.080488
Skewness	-10,42721	-0.359439	1.463504	2.300261	0.438758
Kurtosis	129.5059	1.591109	8.990003	9.302423	8.701264
Jarque-Bera	156167.1	23.76673	422.2514	578.4107	316.1073
Probability	0.000000	0.000007	0.000000	0.000000	0.000000
Sum	48.59923	758.0000	21.23420	20.10582	-0.177954
Sum Sq. Dev.	44,69425	547.9825	4.719945	1.722988	1.470563
Observations	228	228	228	228	228

Source: Output E-Views 9, 2021

As appears in Table 1, CEO narcissism is the highest value (5), and tax avoidance is the lowest one (-5.549171) among the tax avoidance, CEO narcissism, sales growth, profitability, and earnings management. Narcissists have a high self-interest and a strong desire to be recognized. This can be attributed to the prominence of their photo in the company's annual report. The more prominent the CEO's photo, the more narcissistic it becomes because then he feels more important. It means a maximum score of 5 describes a highly narcissistic CEO, while a minimum value of 1 describes the lowest level of CEO narcissism. The lowest score of tax avoidance -5.549171 was found at PT. Indo Acitama Tbk dh Sarasa Nugraha Tbk (SRSN) in 2016, which means that this company has a fairly low level of tax avoidance. While the highest value of 0.839146 was found at PT. Lion Metal Works Tbk (LION) in 2019, which means this company achieved the highest level of tax avoidance based on the measurement of discretionary accruals.

In descriptive statistics, the standard deviation is used to measure the deviation of data values from the mean. CEO narcissism, the average value of this variable is 3.324561, is higher than a standard deviation of 1.553712. This indicates that the data has a fairly good distribution. Sales growth has a mean value of 0.093132 is lower than a standard deviation of 0.144197. This indicates that the data has a fairly large data distribution. Profitability has a mean value of 0.088183, higher than a standard deviation of 0.087122. This indicates thatThe data has a fairly good data distribution. The earnings management variable has a mean value of -0.000780 is higher than a standard deviation of 0.080488, indicating that the info includes a fairly large distribution. Variable tax avoidance has a mean value of 0.213155 is smaller than the standard deviation of 0.443724. This means that the information features a fairly large distribution.

4.2 Selection of panel data regression model

Panel data regression analysis consists of 3 models/approaches, namely common effect, fixed effect, and random effect. To get the best model/approach in panel data analysis, a paired test of each model was carried out, namely the restricted F test (Chow test), the Hausman test, and the Lagrange multiplier (LM) test. This test uses E-Views version 11.00. The following is the process of selecting a panel data regression model:

a. Chow Test/Chow Test

Chow test is a statistical test that aims to choose whether it is better to use the Common Effect or Fixed Effect model.

Table 4.2 Chow Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	1.890031	(56,165)	0.0010
Cross-section Chi-square	112.994313	56	0.0000

Source: Output E-Views 9, 2021

The prob cross-section F value for the estimated results of the Chow test is 0.0010. Because the prob cross-section F value < 0.05, it can be concluded that the model used is the fixed effect model.

b. Hausman test

The Hausman test is used to determine between the Random Effect or Fixed Effect approaches.

Table 4.3 Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Cross-section random	0.689097	6	0.9947

Source: Output E-Views 9, 2021

Prob value. The random cross-section for the estimation results of the Hausman test is 0.9947. Because the random cross-section value is > 0.05, it can be concluded that the approach uses a random effect.

c. Lagrange Multiplier (LM) Test

The Lagrange Multiplier test is used to determine which model will be chosen in the estimation of the panel data regression model, between common effects or random effects.

Table 4.4 Lagrange Multiplier Test Results

	Hypothesis Test Cross-section	Time	Both
Breusch-Pagan	11.74870 (0.0006)	0.039268 (0.8429)	11.78797 (0.0006)

Source: Output E-Views 9, 2021

Prob value. *Breusch-Pagan* for the estimation results of the Lagrange multiplier test is 0.0006. Because the value *Breusch-Pagan* <0.05, it can be concluded that the approach uses random effects.

Table 4.5 Conclusion of Regression Model Selection Results

Selection Test Model	**Model Result Test**	**Models used**
Chow test : H0 = CEM (Common Effects Model) H1 = FEM (Fixed Effects Model) Prob. > 0.05, then H0 is accepted Prob. < 0.05, then H1 is accepted	*prob cross section F*of 0.0010	*Fixed Effect Model*
Hausman test: H0 = REM (Random Effects Model) H1 = FEM (Fixed Effects Model) Prob. > 0.05, then H0 is accepted Prob. < 0.05, then H1 is accepted	*prob. Cross section random*of 0.9947	*Random Effect Model*
Lagrange Multiplier (LM) Test : H0 = CEM (Common Effects Model) H1 = REM (Random Effects Model) Prob. > 0.05, then H0 is accepted Prob. < 0.05, then H1 is accepted	*prob. Breusch-Pagan* as big as0.0006	*Random Effect Model*

Source: data processed by the author

Based on table 4.5 above, it can be concluded that the best model/approach in the panel data regression analysis of this study uses a random effect model.

4.3 Hypothesis test

Table 4.6 Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.140114	0.090923	1.541020	0.1247
NAR	0.017200	0.023296	0.738318	0.4611
SG	0.178881	0.207889	0.860464	0.3905
PROF	0.147990	0.426239	0.347200	0.7288
NAR*EM	0.472820	0.138290	3.419044	0.0007
SG*EM	-3.945898	1.819509	-2.168662	0.0312
PROF*EM	-6.999394	4.200551	-1.666304	0.0971

Weighted Statistics

Root MSE	0.383292	R-squared	0.062252
Mean dependent var	0.147214	Adjusted R-squared	0.036793
S.D. dependent var	0.396681	S.E. of regression	0.389315
Sum squared resid	33.49605	F-statistic	2.445176
Durbin-Watson stat	1.506394	Prob(F-statistic)	0.026139

Unweighted Statistics

R-squared	0.058680	Mean dependent var	0.213155
Sum squared resid	42.07158	Durbin-Watson stat	1.199343

Source: Output E-Views 9, 2021

4.3.1 Coefficient of determination test (R^2)
Based on the test results, the adjusted R-squared value is 0.036793, which means the ability to explain the independent variable to the dependent variable contained in the model is low and contributes to the dependent variable by 3,67%. The remaining 96.33% are another independent variable outside the model.

4.3.2 Model feasibility test (F-test)
The results of the F test showed that the Prob (F-statistic) was 0.026139 < 0.05, with an error rate of 5%, which means that the model is fit or feasible to be used in research, in other words, CEO narcissism, sales growth, profitability, and earnings management significantly affect on tax avoidance.

4.3.3 Partial test (t-test)
1. The coefficient value of CEO narcissism (NAR) is 0.017200 with a significance value of 0.4611 > 0.05, so it can be concluded that partially the CEO narcissism variable has no significant effect on tax avoidance.
2. The coefficient value of sales growth (SG) is 0.178881 with a significance value of 0.3905 > 0.05, so it can be concluded that partially the sales growth variable has no significant effect on tax avoidance.
3. The coefficient value of profitability (PROF) is 0.147990 with a significance value of 0.7288 > 0.05, so it can be concluded that partially the profitability variable has no significant effect on tax avoidance.
4. The coefficient value of CEO narcissism moderated by earnings management (NAR*EM) is 0.472820 with a significance value of 0.0007 < 0.05, so it can be concluded that earnings management can significantly moderate the effect of CEO narcissism on tax avoidance.
5. The coefficient value of sales growth moderated by earnings management (SG*EM) is -3.945898 with a significance value of 0.0312 < 0.05, so it can be concluded that earnings management can significantly moderate the effect of sales growth on tax avoidance.
6. The coefficient value of a significance value of profitability moderated by earnings management (PROF*EM) is -6.999394 with a significance value of 0.0971 > 0.05, so it can be concluded that earnings management cannot moderate the effect of profitability on tax avoidance.

4.4 Discussion
4.4.1 The effect of CEO narcissism on tax avoidance
The CEO’s narcissism cannot directly influence the company's tax avoidance activities, but it needs support such as earnings management activities. On the other hand, when conducting tax avoidance activities, the increase or decrease in tax evasion of a company is not due to the narcissistic CEO factor shown in the photo of the annual report but is largely influenced by other factors. The results of this study are in line with the research of Kim (2018), which found that CEO narcissism is not related to tax avoidance because there is internal control so that whatever decisions are made by CEOs with confidence low or high self-esteem for the company's operations will not have an impact on tax avoidance. On the other hand, narcissistic CEOs are more likely to pursue rewards or desired results but not to take high risks such as tax evasion because there are negative consequences of aggressive tax policies such as greater oversight by tax authorities and administrative sanctions such as interest and fines, securities and reputation. This study is in line with Olsen & Stekelberg, (2016), Capalbo et al., (2018) and Buyl et al., (2019).

4.4.2 The effect of sales growth on tax avoidance
Sales growth cannot directly affect tax avoidance activities but requires support such as earnings management activities. On the other hand, in doing tax avoidance, the higher or lower the tax avoidance by the company, it does not always consider the sales growth factor significantly, but other factors are very influential that cause the company's tax cost-efficiency activities. On the other hand, the existence of good internal control and the perfection of the audit reduces the opportunities for financial engineering to be carried out. Because companies with good sales growth will earn greater profits, therefore there is a tendency or trend for the company's tax burden to rise. The following conditions make companies less likely to do tax evasion because the company does not want to take the risk of being subject to sanctions that will destroy public trust in the company and can disrupt the company's performance which is increasing.

4.4.3 The effect of profitability on tax avoidance

Partially the profitability variable has no significant effect on tax avoidance. Higher or lower tax avoidance by the company is not significantly caused by profitability as proxied using ROA, but the existence of other factors that have a more significant influence. ROA is the ratio of net income to total assets, while there are many other formulas as a basis for calculating the profitability of a company, which may give different results. The results of this study are in line with research by Wahyuni et al. (2017), which states that profitability has no significant effect on tax avoidance. Tax evasion is a risky activity. Tax evasion can also incur significant costs, including fees paid to tax consultants, time spent completing tax audits, reputational penalties, and penalties paid to tax authorities.

4.4.4 The effect of CEO narcissism moderated by earnings management on tax avoidance

Earnings management can significantly moderate the effect of CEO narcissism on tax avoidance, meaning that earnings management can strengthen or weaken the effect of CEO narcissism and tax avoidance. Earnings management, according to Schipper (1989) in Subramanyam (2014), can be defined as "purposeful intervention by management in the earnings determination process, usually to satisfy selfish objectives". (Healy & Wahlen, 1999) show that managers manage earnings to increase their income, compensation, and job security. In the discussion related to CEO narcissism with tax avoidance, it has been stated that CEO confidence as measured by the size of the CEO's photo in the annual report does not directly have a significant effect on tax avoidance activities. However, the interaction of earnings management as a moderator resulted in a significant effect of CEO narcissism on tax avoidance. This is supported by Wang & Chen (2012), showing that there is a significant positive relationship between earnings management and tax avoidance, and Amidu et al. (2019), who prove that earnings management is closely related to corporate tax avoidance. Regarding the CEO's narcissistic attitude, because the positive perception of a narcissistic CEO will overestimate himself and dare to take risks to get the desired financial statements, narcissistic CEOs have a desire to compete and be the center of attention. To fulfill this need, they tend to take more risky actions (Ham et al., 2017). This is where the role of earnings manipulation activities strengthens CEOs to carry out tax avoidance activities. Lin et al. (2020) found that CEOs engage in earnings management to meet positive earnings thresholds and analyst forecasts. The CEO uses the abnormal production cost method as a basic mechanism to increase reported earnings.

4.4.5 The effect of sales growth moderated by earnings management on tax avoidance

Earnings management can significantly moderate the effect of sales growth on tax avoidance, meaning that earnings management can strengthen or weaken the effect of sales growth and tax avoidance. It is shown from the results above that sales growth does not have a significant effect, but when you include earnings management as a moderator, it creates a significant effect of sales growth on tax avoidance. Sales growth is closely related to increased revenue. It is known that this study does not have a high and significant sales growth. This is where earnings management plays a role in sales variables which are closely related to profits and taxes that are the company's burden. Companies increase revenue to avoid loss reporting, to beat the previous year’s revenue, or to achieve the target. Managers manipulate earnings through accounting choices or operational decisions (Kałdoński & Jewartowski, 2020). The results of this study are in line with the research of Irianto et al. (2017) which, in the process of minimizing the tax burden, management carries out the profit management process as desired, where the sales account is the core of the company's income which is very likely to contain bias. Companies with better sales tend to be motivated to carry out earnings management (Mulyadi & Anwar, 2015). Therefore, it can be concluded that there is an effect of sales growth on tax avoidance in the presence of biased figures. On the other hand, the effect of earnings management on tax avoidance researched by Wang and Chen (2012) shows that there is a significant positive relationship between earnings management and tax avoidance.

4.4.6 The effect of profitability moderated by earnings management on tax avoidance

Earnings management cannot significantly moderate the effect of profitability on tax avoidance, meaning that earnings management cannot strengthen or weaken the effect of profitability on tax avoidance. Earnings management is a manager's choice in selecting and determining accounting policies or real actions that affect company profits to achieve several objectives in making financial statements (Scott, 2015) in Religiosa & Surjandari, (2021). One of the purposes of company assets is to generate income and generate profits for the company itself. From this goal, ROA can help management and investors to see how well a company can convert its investment in assets into profit. The logical reason is that tax evasion does not always consider Return on Assets or is caused by other reasons. The results of this study are in line with the research of Kraft (2014) and Delgado et al. (2014), which found that company profitability will have an impact on tax avoidance. The results of Amidu et al. (2019) research show that earnings management affects the tax avoidance of firms operating in Ghana. However, the results of the research on the use of significant levels are different, so the significance of each study using the profitability and earnings management variables as moderators gives varying results.

5. Conclusion

Based on the results of the research that has been done, it can be concluded that CEO narcissism proxied using the size of the CEO's photo in the annual report has no significant effect on Tax Avoidance in manufacturing companies listed on the Indonesia

Stock Exchange. This is because internal companies that already have a good audit system, on the other hand, return to the characteristics of the CEO. Narcissists are more likely to pursue rewards or desired results but not to take high risks such as tax avoidance because there are negative consequences of aggressive tax policies such as greater scrutiny by tax authorities, administrative sanctions such as interest and fines, and reputational effects.

Sales Growth has no significant effect on Tax Avoidance. Because companies with good sales growth will earn greater profits, therefore there is a tendency or trend for the company's tax burden to rise. The following conditions make companies tend not to do tax avoidance because the company does not want to take the risk of being subject to sanctions that will eliminate public trust in the company and can disrupt the company's performance which is increasing. Profitability, as proxied by Return On Assets (ROA), has no significant effect on Tax Avoidance. Then earnings management which is proxied using Discretionary Accrual (DA), can moderate the effect of CEO Narcissism on Tax Avoidance. Positive perceptions of narcissistic CEOs will overestimate themselves and dare to take risks to get the desired financial statements. This is where the role of earnings manipulation activities strengthens CEOs to carry out tax avoidance activities. Earnings Management can also moderate the effect of Sales Growth on Tax Avoidance. Sales growth is closely related to increased revenue. It is known that this study does not have a high and significant sales growth. This is where earnings management plays a role in sales variables which are closely related to profits and taxes that are the company's burden. But different from profitability, earnings management cannot moderate the effect of profitability Against Tax Avoidance. Earnings management occurs when managers use judgment in financial reporting and in structuring accounting transactions to change earnings on financial statements. In this study, earnings management can neither strengthen nor weaken profitability by tax avoidance. Because in doing tax avoidance does not always consider Return on Assets or caused by other reasons.

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