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CEO Tenure and Tax Avoidance: The Moderating Role of Local CEOs

Nurul Fitriani[1*], Nor Rahma Rizka[2], Selma Putri Safira[3], Ellyzabeth Putri Vizandra[4]
[1,3,4] Accounting Department, Universitas Pembangunan Nasional Veteran Jawa Timur
Jalan Raya Rungkut Madya No. 1, Surabaya 60294, Indonesia
[2] Accounting Department, Politeknik Negeri Tanah Laut
Jalan Ahmad Yani KM.06, Pelaihari 70815, Indonesia
[*]Corresponding author; Email: nurul.fitriani.febis@upnjatim.ac.id

ABSTRACT

This study investigates whether local CEO status moderates the relationship between CEO tenure and corporate tax avoidance in the Indonesian context. The study uses a sample of 1,181 firm-year observations from 2020 to 2023 covering non-financial firms listed on the Indonesia Stock Exchange (IDX). This research employs a moderated regression analysis to test the developed hypotheses. The results show that longer CEO tenure is associated with lower tax avoidance, suggesting that seasoned CEOs are less likely to engage in tax avoidance. Furthermore, the interaction between CEO tenure and local CEO status is positive and statistically significant, indicating that CEO local status weakens the negative relationship between CEO tenure and corporate tax avoidance. This finding suggests that although long-tenured CEOs generally adopt more conservative tax avoidance strategies, local CEOs with longer tenures may utilize their accumulated experience, domestic institutional knowledge, and local networks to identify tax avoidance opportunities more effectively. Overall, the findings highlight that CEO characteristics and their institutional contexts play an important role in shaping corporate tax avoidance behavior.

Keywords: CEO characteristics; CEO tenure; local CEO; tax avoidance; upper echelon theory.

INTRODUCTION

Considering the rising public scrutiny regarding government revenue, corporate tax avoidance has received increasing attention. It is often regarded as a legitimate tax management strategy aimed at reducing tax liabilities within legal boundaries [11][15]. However, when implemented aggressively, tax avoidance may exploit legal loopholes and resemble abusive tax practices, raising concerns among regulators and other stakeholders. Despite these concerns, prior studies suggest that tax avoidance may improve firm performance by increasing after-tax profits and preserving internal cash flows [24][44]. This dual nature creates a dilemma: while tax avoidance may benefit firms financially, it can simultaneously reduce government tax revenues and increase regulatory scrutiny. Therefore, understanding the factors that drive corporate tax avoidance remains an important research issue.

One of the key figures in determining a firm's strategic decisions, including policies related to taxation, is the Chief Executive Officer (CEO) [15]. It was indicated by the previous research that the extent to which a corporation indulges in tax avoidance activities depends on the specific CEO characteristics [11][15]. Nonetheless, there appears to be an evident lack of information regarding CEO tenure and its relation to the tax avoidance rate in Indonesia's particular regulatory context. Accordingly, the main objective of the present paper is to investigate and specify the relation between the duration of CEO tenure and tax avoidance behavior among Indonesian firms.

The Upper Echelons Theory serves to justify this research. It suggests that the features and background of CEOs influence their perception and decision-making processes in a particular manner [12]. An executive who has been in their job for a long time probably has a more well-established point of view, is less likely to take risks, and is more careful about avoiding taxes. On the other hand, newly appointed CEOs may be more willing to take bold initiatives, such as tax avoidance, to showcase their effectiveness as a leader. More recent studies emphasize the fact that CEO tenure is a critical determinant of the strategic direction of firms [22]. This is also consistent with evidence that CEO tenure is associated with firms' financing decisions, although the effect may differ between short-term and long-term debt financing [33].

This study deepens the literature by proposing a new moderating variable, CEO local status, on the relation between CEO tenure and tax avoidance. A

local CEO is defined as a person who is a national of the country where the firm is based. It is assumed that such a local CEO is more familiar with the local business environment, the relevant regulations, and the local social networks [39][52]. This form of local embedding may affect the way local CEOs, depending on their tenure, deal with tax issues and choose tax avoidance strategies. Although some researchers have studied the impact of local CEOs on different strategic issues [5][35][46][52], no empirical study has specifically examined the local CEO's role as a moderator on the relation of CEO tenure and tax avoidance, especially in the corporate setting of Indonesia. More broadly, research on social ties documents that shared hometown connections can influence selection and resource-allocation outcomes, illustrating how informal networks may shape organizational processes [9].

There are a number of important reasons for focusing this study on tax avoidance in Indonesia. First, tax avoidance is crucial for the national economy, especially given Indonesia's tax ratio, which is below the regional average [50]. Understanding the reasons for this noncompliance is essential in any strategy to improve tax compliance. Second, tax avoidance can increase the wealth of shareholders by saving cash and freeing up resources for more productive investment [3]. Third, tax avoidance decisions indicate the upper management's risk tolerance and creativity in tax planning; hence, this decision is a relevant measure of the strategic risk of the firm. This issue is particularly relevant in Indonesia. Although the government has implemented various tax reforms, Indonesia's tax ratio remains relatively low. In 2023, the country's tax ratio was only 10.31% of GDP, indicating that tax revenue collection continues to face significant challenges [25]. The research of [51] shows that approximately 26% of Indonesian firms admitted that they did not fully comply with their corporate income tax obligations, while 52% of firms subject to Corporate Income Tax (CIT) reported that avoiding full corporate income tax payments was relatively easy. This issue is particularly relevant in Indonesia because, despite various tax reforms implemented by the government, tax revenue collection continues to face significant challenges. Consequently, identifying the factors that drive corporate tax avoidance is essential to strengthen tax compliance and improve the country's fiscal capacity. This condition underscores the importance of understanding the determinants of corporate tax avoidance, as such practices may further reduce government revenue and weaken the country's fiscal capacity.

The current study employs a quantitative approach to examine how a CEO's local background moderates the relationship between CEO tenure and corporate tax avoidance. Drawing on the Upper Echelons Theory, this study argues that executives' personal backgrounds, experiences, and cognitive characteristics shape strategic corporate decisions, including tax avoidance. Local CEOs are expected to possess superior knowledge of the domestic regulatory environment, tax regulations, business practices, and informal institutional networks. Such familiarity may enable them to identify legitimate tax avoidance opportunities more effectively and navigate regulatory complexities with greater confidence than non-local CEOs. Furthermore, prior studies suggest that local CEOs benefit from stronger social and political connections, which may facilitate access to information and institutional resources relevant to corporate tax avoidance. Consequently, local CEO status is expected to influence how CEO tenure affects corporate tax avoidance behavior. Using data collected from annual reports and financial statements, this study examines nonfinancial firms listed on the Indonesia Stock Exchange (IDX) during 2020–2023. The empirical results indicate that firms led by CEOs with longer tenure exhibit lower levels of tax avoidance, suggesting that more experienced CEOs tend to adopt more conservative tax strategies. Furthermore, the moderation analysis reveals that local CEO status weakens the negative relationship between CEO tenure and tax avoidance. Specifically, the negative association between CEO tenure and tax avoidance becomes positive when the firm is led by a local CEO. This finding suggests that a deeper understanding of the domestic institutional environment, tax regulations, and local business networks enables local CEOs to leverage the experience accumulated throughout their tenure to identify legitimate tax avoidance opportunities more effectively. Consequently, the longer a local CEO remains in office, the greater the likelihood that the firm will adopt more tax avoidance strategies compared with firms led by non-local CEOs. To ensure the robustness of these findings, this study further addresses potential endogeneity concerns by employing Coarsened Exact Matching (CEM) and the Heckman two-step model, both of which confirm that the results remain statistically consistent.

The results are anticipated to theoretically and practically contribute to knowledge. Theoretically, this study highlights CEO tenure in the Indonesian context to advance the literature on tax avoidance antecedents. This study also closes research gaps on how top executives' experience modifies corporate tax strategies and extends the Upper Echelons Theory to emerging market taxation. Furthermore, this study provides a novel approach by suggesting the local CEO status as a moderator, revealing how local CEO status shapes the relationship between

CEO tenure and corporate tax avoidance. From a practical perspective, the findings may provide useful information for boards of commissioners and shareholders when evaluating CEO characteristics associated with corporate tax avoidance. Furthermore, the findings may provide useful insights for the Directorate General of Taxes (DJP) by indicating that CEO tenure and local CEO status represent executive characteristics that may be considered when assessing corporate tax avoidance risk among firms.

This paper consists of the following. Section 2 reviews the applicable literature and develops the research hypotheses. Section 3 explains how the study determined the sample and the methodology used in the research. In Section 4, the empirical results are presented and analyzed, and Section 5 concludes.

Upper Echelons Theory

In the taxation literature, several concepts have been developed to explain corporate tax minimization strategies. Although the terms tax planning, tax avoidance, tax aggressiveness, and aggressive tax planning are frequently used interchangeably in prior literature, they represent distinct, albeit closely related, concepts of corporate tax minimization [13]. Tax planning broadly refers to legitimate tax management strategies undertaken to minimize tax liabilities within the boundaries of tax regulations. Tax avoidance is commonly regarded as a form of tax planning that legally reduces tax liabilities by utilizing provisions permitted under tax laws. In contrast, tax aggressiveness and aggressive tax planning generally involve tax positions characterized by greater legal uncertainty and regulatory risk than ordinary tax planning [4]. Accordingly, this study focuses on corporate tax avoidance because it examines how CEO characteristics shape firms' strategic decisions regarding legal tax minimization within the prevailing regulatory framework.

Tax avoidance refers to all the practices that a firm engages in to lessen its tax liability that are legal, although, from an ethical or regulatory perspective, they can be viewed as aggressive. While these practices can have positive impacts, such as increasing net income, they can have negative ramifications, such as exposing the firm to legal challenges and damaging the firm's reputation. This is particularly the case when these practices are viewed as putting the firm's social responsibility to the government at risk. In choosing whether to engage in tax avoidance, a firm considers a multitude of factors, including regulatory challenges, the firm's shareholders, and, in particular, the firm's upper management, especially the chief executive officer [20]. The CEO, as the firm's highest officer, oversees its strategy and operations and can make important tax decisions [11]. In addition, tax avoidance has been associated with higher future stock price crash risk, suggesting that tax-related information opacity may have conse-quences for capital-market risk [45]. Stakeholder-oriented governance may also constrain tax avoid-ance; evidence from European firms indicates that board-level employee representation is associated with higher effective tax rates [47].

The Upper Echelons Theory suggests that the personal attributes and cognitive abilities of the executive directors can help in forecasting the behavior of the organization [12]. Elements of a person's work history, educational history, and ethical system are said to determine the perception and the bias of an executive when faced with a decision. Given these findings, the CEO's role as the principal decision-maker of an organization is especially significant when it comes to determining the organization's tax avoidance practices and particularly the level of tax avoidance the organization engages in. Therefore, the characteristics of the CEO cannot be regarded as mere biographical information; they tend to be a representation of the strategic tendencies and the managerial preferences of the CEO. Thus, from this viewpoint, tax avoidance practices by a corporation are perceived as a reflection of the beliefs, level of risk, and strategic preferences of the CEO [16]. Related evidence from Indonesian firms shows that military-connected companies exhibit lower innova-tion intensity, consistent with the view that the backgrounds and risk preferences of top managers can shape corporate strategic decisions [14].

Prior research has explored the relationship between the traits of top executives and their decisions regarding corporate tax avoidance strategies. For example, [21] posited that CEOs with a military background tend to comply with tax avoidance strategy because military personnel are typically accustomed to authority. A study found that firms with overconfident CEOs are more aggressive tax planners [16]. In the same vein, [31] found a positive correlation between CEO duality and tax avoidance, particularly in developing economies. This illustrates the relevance of CEO traits and their systematic correlation to the tax behaviors of the organization.

Utilizing the upper echelons theory, this research contributes to tax avoidance literature by focusing on CEO tenure and local background. CEOs with extended tenure are presumed to have more in-depth institutional memory and expertise, including knowledge of tax law and the consequences of a decision on the firm over an extended period of time

[23]. As a result, this experience is likely to be incorporated into decision-making and could result in an increased focus on a more conservative stance regarding tax strategies, diminishing the focus on tax avoidance strategies. However, local CEOs of the same nationality as the firm are expected to better understand the domestic business environment. This experience is characterized by having knowledge about the legal framework as well as how the local taxation system works. Although these factors may prove advantageous for these local CEOs, it may have an impact on how they can maintain a delicate balance between obeying the law and making efforts to take advantage of legal loopholes.

Hypothesis Development

CEOs play a key role in developing corporate strategy, particularly in the formulation of policies that pertain to taxation. Under the Upper Echelons Theory, the individual attributes of executives, such as their experience, length of service, and personal history, are central to strategic decision-making [12]. In this regard, CEO tenure is a primary driver of firm dynamics and operational governance. Generally, long-tenured CEOs possess wider institutional memory, deeper stakeholder engagement, and a profound appreciation of the long-term implications of their strategic choices.

Recent studies [30] demonstrated that CEO contractual and behavioral attributes, including tenure, are critical to the firm's risk of being tax audited. On average, long-tenured CEOs tend to be more conservative and adopt a more holistic perspective, which may reduce their propensity to engage in corporate tax avoidance. A prior study [29] found a significant and negative correlation between CEO tenure and earnings management, suggesting that experienced CEOs tend to adopt more conservative reporting practices. Since both earnings management and tax avoidance represent managerial decisions involving financial reporting discretion and risk-taking, this finding also supports the argument that longer-tenured CEOs are less likely to engage in aggressive tax avoidance. These executives are more likely to consider the negative consequences of tax planning strategies, both reputationally and legally. In addition, long-tenured CEOs are known to face less short-term performance pressure than their peers, which increases their likelihood of prioritizing compliance with the law, including the law's regulations and the longevity of the business [23].

Relying on the case study approach, new CEO appointments show relatively new CEOs as being under more pressure as a result of demands placed to show immediate financial performance, encouraging greater engagement in corporate tax avoidance as a form of tax deferral (i.e., fewer taxes paid and higher earnings reported) [36]. This sort of behavior encourages a short-term focus that is more risk-taking, whereas CEOs with longer tenures are more likely to adopt a long-term focus and prioritize regulatory compliance [26]. Overall, it may be synthesized from the literature that the longer the tenure of the CEO, the less tax avoidance is present, because tax avoidance practices are seen to be short-term, opportunistic, and not in line with the spirit of long-term, compliance-focused leadership. Thus, the first hypothesis of the study is formulated as follows:

H_1: CEO tenure is significantly and negatively associated with corporate tax avoidance.

According to the upper echelons theory, the decisions on the strategic direction of an organization are formed by the background, experience, and personal values of its executives [12]. Under this theory, CEO nationality and tenure become critical characteristics that might impact the tax policy of the firm, especially its propensity to adopt a tax avoidance strategy. Tenured CEOs typically have more experience within the national tax environment, know the business culture better, and have relevant networks that help conduct business within the country. As a result, a tenured CEO is likely to make different decisions concerning tax planning and tax compliance strategies compared to a novice CEO.

As proven by past studies, there is a negative relationship between CEO tenure and earnings management and opportunistic behavior [29]. Thus, long-tenured CEOs are expected to be cautious and prioritize business sustainability. They are also more aware of the risks to their reputation and the legal consequences of aggressive tax strategies, and they tend to follow the rules more closely [24]. On the other hand, CEOs who have been in their jobs for a shorter time are often under more pressure to show short-term financial results, which makes them more likely to use tax avoidance strategies [36]. Accordingly, long-tenured CEOs are more likely to adopt a conservative approach to taxation to protect the firm's long-term reputation and regulatory standing.

The study of [48] found that local CEOs tend to possess stronger knowledge of domestic tax systems, business norms, and local networks, enabling them to exploit regulatory gaps to the firm's advantage more effectively. In contrast, foreign CEOs may lack familiarity with national regulations, which can negatively impact firm performance [18]. Other studies indicate that CEOs who have strong ties to their place of origin tend to be more inclined

toward tax avoidance, as they can utilize both political affiliations and personal relationships with local authorities, thereby reducing the likelihood of detection [43]. Moreover, CEOs with political connections through family, academic, or professional affiliations have a higher tendency to engage in risky strategies such as tax avoidance [19].

Similarly, it documented that CEO locality has a positive and significant effect on corporate tax avoidance. Their findings suggest that local CEOs possess superior institutional familiarity and access to local business networks, allowing them to identify more effective tax planning opportunities [42]. Furthermore, the study demonstrates that CEOs' financial expertise moderates this relationship, indicating that the influence of CEO locality on tax avoidance depends on the managerial competencies possessed by executives. Recent empirical evidence has increasingly examined the relationship between CEO locality and corporate tax avoidance [37].

CEO nationality significantly influences corporate tax avoidance among Indonesian listed firms, indicating that Indonesian CEOs are more likely to engage in tax planning strategies because of their greater understanding of domestic institutional and regulatory environments. The study further argues that executives' demographic backgrounds, particularly nationality, constitute an important determinant of corporate tax strategy, consistent with the Upper Echelons Theory [37].

These findings reinforce the proposition of the Upper Echelons Theory that executives' personal backgrounds influence organizational outcomes through their strategic decision-making. Local CEOs' profound knowledge of domestic tax regulations, institutional practices, and stakeholder relationships may reduce information asymmetry and improve their ability to implement sophisticated tax planning strategies while remaining within legal boundaries. Therefore, this research expects that a local CEO's status will increase the likelihood of corporate tax avoidance.

The aforementioned studies suggest that local CEO status moderates the relationship between CEO tenure and corporate tax avoidance. Local CEOs with longer tenure not only possess greater experience in managing the firm but also have a more profound understanding of the domestic institutional environment, tax regulations, business practices, and local networks. The combination of accumulated experience throughout their tenure and embeddedness in the domestic environment may provide local CEOs with a greater ability to understand and exploit tax avoidance opportunities available within the existing regulatory framework. This condition may reduce the tendency of long-tenured CEOs to adopt conservative tax strategies. Accordingly, local CEO status is expected to weaken the negative effect of CEO tenure on tax avoidance, such that the relationship between CEO tenure and tax avoidance becomes positive in firms led by local CEOs. Therefore, the second hypothesis of this study is formulated as follows:

H_2: Local CEO status weakens the negative relationship between CEO tenure and corporate tax avoidance.

RESEARCH METHOD

Sample and Data Description

This research draws on data from non-financial firms listed on the Indonesia Stock Exchange (IDX) over the 2020–2023 period. These companies are very important to the national economy, and their reporting needs, regulatory frameworks, and internal control systems are different from financial institutions [27][40]. Construction firms were also excluded from the sample because they are generally subject to Indonesia's final income tax regime, under which income tax is imposed on gross revenue rather than taxable income. As a result, commonly used measures of tax avoidance may not accurately capture tax planning behavior in this sector. The dataset starts with 3,084 firm-year observations. The final dataset has 1,142 firm-year observations after eliminating construction firms, companies with negative net income, missing data, and severe outliers. Table 1 shows the step-by-step method of how the samples were chosen.

Table 1. Sample Selection Criteria

Panel A. Sample Selection	
Total listed non-financial firms from IDX for 2020 – 2023	3,084
(-) Companies with negative net income	820
(-) Missing data: CEO Tenure	901
(-) Missing data: Control Variables	84
(-) Companies with GAAP ETR < 0 or > 1	98
(-) Construction companies	39
Total sample observation	1,142

Source: Authors' own creation, 2026

Table 2. Distribution of Research Data

SIC	Frequency	Percent	Cumulative
SIC 0-Agriculture, Forestry, and Fishing	74	6.48%	6.48%
SIC 1-Mining	108	9.46%	15.94%
SIC 2-Manufacturing 1	328	28.72%	44.66%
SIC 3-Manufacturing 2	172	15.06%	59.72%
SIC 4-Transportation, Communications, and Utilities	213	18.65%	78.37%
SIC 5-Wholesale and Retail Trade	126	11.03%	89.40%
SIC 7-Service 1	80	7.01%	96.41%
SIC 8-Service 2	41	3.59%	100%
Total	1,142	100.00%	

Source: Authors' own creation, 2026

According to Table 2, most of the sample's businesses are in the manufacturing sector, particularly those that assemble components or process raw materials (SIC 2). The service industry (SIC 8), which includes healthcare, legal, education, and consulting services, has the fewest businesses. This finding aligns with [41], which emphasizes the preeminent position of the manufacturing sector in Indonesia's economy, whereas professional services have had comparatively slow growth relative to other industries.

Operational Definition and Measurement

The study variables were derived from the financial statements of the sampled companies, while data regarding CEO characteristics and board size were obtained from annual reports. The dependent variable in this study is tax avoidance. Tax avoidance is measured using the GAAP_ETR, as adopted in prior studies [6][30][38][49]. GAAP_ETR is calculated as total income tax expense divided by pre-tax income [10]. As total income tax expense includes both current and deferred tax expense, GAAP_ETR captures a firm's overall tax burden without distinguishing between these two components. This indicator reflects the overall tax reduction strategies applied by firms, including tax planning and tax sheltering [32]. Consistent with prior studies [38], firms with negative pre-tax income are excluded because a negative denominator may generate economically meaningless or highly distorted effective tax rates that do not reliably reflect tax avoidance behavior. GAAP_ETR serves as an inverse proxy for tax avoidance, where a lower value reflects a greater level of tax avoidance. To facilitate interpretation, this study transforms GAAP_ETR into the tax avoidance (TA) measure by multiplying it by -1, such that higher TA values indicate greater tax avoidance.

CEO tenure (CEOTENURE) in this study is used as an independent variable measured using the total duration of a CEO tenure, measured from the year of appointment up to the current year [17][30][34]. The number of years of CEO tenure indicates work experience related to corporate decision-making and has the potential to influence board decisions in listed companies [32]. Furthermore, the local CEO (CEOLOCAL) is used as a moderating variable. The variable "Local CEO," which refers to the CEO nationality, is defined as an identity concept related to the region of origin [38]. This identity is assessed based on factors such as place of birth, hometown, or preference for a particular region, which can influence business decisions due to local attachment [1]. Identity develops through the connection between individuals and their native environment, influencing both their social status and roles. In this research, the LOCAL CEO variable is designated as a dummy variable, receiving a value of 1 when the CEO has Indonesian citizenship (WNI) and 0 otherwise [1].

In accordance with prior studies [7][17][30][32][49], this research includes multiple control variables at the firm, CEO, and board levels. The natural logarithm of total assets is used to measure firm size (FSIZE) at the firm level, while the net income divided by total equity is used to evaluate return on equity (ROE). The study examines executive and board characteristics, including CEO age, measured in years, and board size (BSIZE). Given Indonesia's two-tier board system, BSIZE is measured as the total number of individuals serving on both the Board of Directors and the Board of Commissioners. This measurement captures the overall structure of corporate governance by considering both executive and supervisory functions. The model also includes fixed effects for industry and year, which are grouped by SIC codes, to take into account sector-specific characteristics and changes in tax avoidance over time [5].

Research Design

This study used the regression model specified in Equation (1) to evaluate the correlation between CEO tenure and tax avoidance. Additionally, to investigate whether the local CEO status moderates the link between CEO tenure and tax avoidance, a separate regression model is estimated, as specified in Equation (2).

$$TA_{i,t} = \beta_0 + \beta_1 CEOTENURE_{i,t} + \beta_2 CEOLOCAL_{i,t} + \beta_3 CEOAGE_{i,t} + \beta_4 BSIZE_{i,t} + \beta_5 FSIZE_{i,t} + \beta_6 ROE_{i,t} + \beta_7 Year\ Fixed\ Effect_{i,t} + \beta_8 Industry\ Fixed\ Effect_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$TA_{i,t} = \beta_0 + \beta_1 (CEOTENURE_{i,t} \times CEOLOCAL_{i,t}) + \beta_2 CEOTENURE_{i,t} + \beta_3 CEOLOCAL_{i,t} + \beta_4 CEOAGE_{i,t} + \beta_5 BSIZE_{i,t} + \beta_6 FSIZE_{i,t} + \beta_7 ROE_{i,t} + \beta_8 Year\ Fixed\ Effect_{i,t} + \beta_9 Industry\ Fixed\ Effect_{i,t} + \varepsilon_{i,t} \quad (2)$$

RESULTS AND DISCUSSION

Descriptive statistics

Table 3. Descriptive Statistics

	Mean	Median	Min	Max	SD
TA	-0.248	-0.223	-0.850	-0.000	0.148
CEOTENURE	7.945	5.000	1.000	42.000	8.760
CEOLOCAL	0.916	1.000	0.000	1.000	0.278
CEOAGE	54.608	55.000	31.000	81.000	10.102
BSIZE	8.042	7.000	4.000	18.000	3.204
FSIZE	28.446	28.419	22.933	32.576	1.884
ROE	0.123	0.090	-0.019	1.120	0.139

Source: Authors' own creation, 2026

An overview of the descriptive statistics for each variable utilized in this investigation, including the mean, median, minimum, maximum, and standard deviation, is given in Table 3. The sample firms' levels of tax avoidance vary, with values ranging from –0.850 to 0.000. The mean value of TA is –0.244, with a standard deviation of 0.151. Furthermore, the median value of –0.222 indicates that half of the data fall below this threshold for tax avoidance. CEO tenure ranges from 1 to 42 years, meaning that the shortest tenure is one year, while the longest is 42 years. The average CEO tenure is 7.944 years, with a standard deviation of 8.756, which indicates considerable variation in CEO tenure across firms. Local CEO (CEOLOCAL) is a dummy variable with a mean value of 0.915, which means that 91.5% of the sample is led by CEOs who are Indonesian nationals. The presence of negative values in ROE reflects that some firms in the sample have negative equity.

Pearson Correlation

Table 4. Pearson Correlation

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
[1]	TA	1.000						
[2]	CEOTENURE	-0.052*						
		(0.081)	1.000					
[3]	CEOLOCAL	0.065**	0.073**					
		(0.028)	(0.013)	1.000				
[4]	CEOAGE	0.039	0.432***	-0.049				
		(0.182)	(0.000)	(0.100)				
[5]	BSIZE	0.004	-0.022	-0.124***				
		(0.893)	(0.455)	(0.000)				
[6]	FSIZE	0.046	-0.030	-0.060**				
		(0.123)	(0.308)	(0.041)				
[7]	ROE	0.245***	-0.039	-0.003				
		(0.000)	(0.191)	(0.922)				
		[4]	[5]	[6]	[7]			
[4]	CEOAGE	1.000						
[5]	BSIZE	0.166***						
		(0.000)	1.000					
[6]	FSIZE	0.234***	0.682***					
		(0.000)	(0.000)	1.000				
[7]	ROE	0.031	0.172***	0.168***	1.000			
		(0.302)	(0.000)	(0.000)				

Source: Authors' own creation, 2026

Table 4 displays the results of the Pearson correlation test. The findings reveal a negative and statistically significant association between CEOTENURE and TA (coefficient = –0.052, p = 0.081), indicating that a longer CEO tenure tends to be linked with reduced tax avoidance. On the other hand, CEOLOCAL has a positive and significant relationship with TA (coefficient = 0.065, p = 0.028). This means that companies with Indonesian CEOs are more likely to avoid paying taxes. All correlation coefficients are less than 0.9, which means that multicollinearity is not a problem with the independent variables [8]. It is important to note that Pearson correlation only measures linear correlations between pairs of variables [2]. To investigate the potential moderating effect of CEOLOCAL on the CEOTENURE–TA relationship, a more comprehensive analysis using multivariate methods, specifically moderated regression, is necessary.

Moderated Regression Analysis

Table 5 presents the regression results for all hypotheses examined in this study. In Model 1, CEO tenure exhibits a negative and statistically significant relationship with tax avoidance ($\beta = -0.001$, $t = -2.01$, $p < 0.05$). When the CEO local variable is included in Model 2, the negative effect of CEO tenure remains statistically significant. These results indicate that firms led by CEOs with longer tenure tend to exhibit lower levels of tax avoidance, thereby supporting H1.

Model 3 examines the moderating effect of CEO local status on the relationship between CEO tenure and tax avoidance. The interaction term between CEO tenure and CEO local status is positive and statistically significant ($\beta = 0.005$, $t = 2.18$, $p < 0.05$). This finding indicates that CEO local status weakens the negative relationship between CEO tenure and tax avoidance. Specifically, the positive interaction coefficient suggests that the negative effect of CEO tenure on tax avoidance becomes less negative when the firm is led by a local CEO. Thus, the presence of a local CEO attenuates the conservative tax strategy associated with longer CEO tenure, supporting H2.

Table 5. Moderated Regression Analysis

	(1) TA	(2) TA	(3) TA
TENURE_LOCAL			0.005**
			(2.18)
CEOTENURE	-0.001**	-0.001**	-0.006***
	(-2.01)	(-2.28)	(-2.67)
CEOLOCAL		0.036**	0.007
		(2.41)	(0.40)
CEOAGE	0.001**	0.001***	0.001***
	(2.46)	(2.63)	(2.59)
BSIZE	-0.003	-0.002	-0.002
	(-1.44)	(-1.21)	(-1.21)
FSIZE	0.003	0.002	0.002
	(0.72)	(0.64)	(0.63)
ROE	0.294***	0.293***	0.288***
	(7.41)	(7.34)	(7.27)
_cons	-0.428***	-0.458***	-0.427***
	(-4.74)	(-4.99)	(-4.56)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
F	6.531	6.302	6.374
R^2	0.111	0.115	0.119
R^2_Adjusted	0.099	0.102	0.106
N	1,142	1,142	1,142

Source: Authors' own creation, 2026

Even while these links are important, the model doesn't explain much overall. The adjusted R-squared value for Model 3 is 0.106. This means that

the variables in the model only explain 10.6% of the variation in tax avoidance. The rest of the variation is probably due to other factors that were not looked at in this study. The F-statistic score of 6.374 also shows that this model doesn't explain anything.

Discussion

CEO Tenure and Tax Avoidance

The findings indicate that CEO tenure is negatively associated with tax avoidance, suggesting that firms led by long-tenured CEOs are less likely to engage in tax avoidance. Rather than merely reflecting accumulated managerial experience, this finding can be interpreted through the Upper Echelons Theory, which argues that executives' strategic decisions are shaped by their experiences, values, and cognitive characteristics [11]. As CEOs remain in office for a longer period, they accumulate firm-specific knowledge, gain a deeper understanding of corporate governance mechanisms, and become more familiar with regulatory expectations. These accumulated experiences enable them to evaluate both the short-term benefits and long-term risks associated with tax avoidance more comprehensively. Moreover, longer-serving CEOs generally place greater emphasis on preserving their professional reputation and maintaining the firm's long-term sustainability. Since they have invested considerable time in building organizational credibility, they are more likely to avoid tax strategies that may expose the firm to regulatory sanctions, litigation risk, or reputational damage. Consequently, experienced CEOs tend to adopt more conservative tax avoidance strategies that support sustainable corporate performance rather than pursuing short-term tax savings.

This interpretation is consistent with the Upper Echelons Theory, which suggests that executives' accumulated experiences influence their strategic risk preferences and organizational decisions. It is also supported by previous empirical studies showing that managerial characteristics play an important role in shaping firms' tax planning behavior. [21] argues that executive experience influences corporate tax decisions through differences in risk perception, while [28] suggests that experienced executives are generally less likely to engage in aggressive tax avoidance because they place greater importance on long-term organizational value and regulatory compliance. Therefore, the present findings indicate that CEO tenure contributes to more prudent corporate tax behavior. These factors support H1, as tenured CEOs are less likely to use tax avoidance tactics.

CEO Tenure and Tax Avoidance: Moderating Role of CEO Local

Regarding H2, the results indicate that CEO local status moderates the relationship between CEO tenure and tax avoidance. Specifically, the positive and significant interaction between CEO tenure and CEO local status suggests that local CEO status weakens the negative relationship between CEO tenure and tax avoidance. This finding indicates that although longer CEO tenure is generally associated with more conservative tax avoidance strategies, this tendency becomes weaker when the CEO is local.

One possible explanation for this finding is that local CEOs with longer tenure possess a unique combination of accumulated managerial experience and deeper embeddedness within the domestic institutional environment. According to the Upper Echelons Theory, executives' personal backgrounds and experiences shape their strategic decisions. Local CEOs are likely to have superior knowledge of domestic tax regulations, business practices, institutional arrangements, and local networks [48][49]. Prior empirical evidence in Indonesia also suggests that local characteristics of a CEO are relevant to corporate tax strategies. The study of [37] finds a significant negative association between Indonesian CEOs and the Effective Tax Rate (ETR), suggesting that CEO local characteristics may influence firms' tax-related decision-making. This domestic knowledge and familiarity with institutions, when combined with a long tenure, may help local CEOs better understand and take advantage of tax avoidance opportunities that are available within the rules.

Furthermore, longer tenure provides local CEOs with greater organizational authority, stronger stakeholder relationships, and more extensive access to informal networks. Prior research suggests that executives with strong political or social connections may have a greater ability to undertake risk-related strategies, including tax avoidance, due to improved access to information and institutional resources [21]. Therefore, local CEOs who remain in their positions for an extended period may be better positioned to leverage their accumulated experience and local embeddedness in implementing more sophisticated tax planning strategies.

These findings suggest that local CEO status changes how CEO tenure influences tax avoidance behavior. While long-tenured CEOs generally tend to adopt conservative strategies due to greater concern for reputation and long-term sustainability, local CEOs with longer tenure may possess greater confidence and capability to identify legitimate tax

avoidance opportunities. Thus, the presence of a local CEO attenuates the negative association between CEO tenure and tax avoidance, supporting H2.

The moderation analysis indicates that CEO local status significantly weakens the relationship between CEO tenure and corporate tax avoidance. This finding suggests that the influence of managerial experience on firms' tax strategies depends on executives' demographic backgrounds, particularly their familiarity with the domestic institutional environment. Such evidence is consistent with the Upper Echelons Theory, which emphasizes that executives interpret organizational situations differently according to their personal characteristics and accumulated experiences. Accordingly, the strategic implications of CEO tenure are not uniform but vary depending on whether the CEO possesses local institutional familiarity.

Although longer CEO tenure generally encourages more conservative strategic decision-making, local CEOs possess additional institutional advantages that influence how managerial experience is translated into tax avoidance decisions. Their familiarity with domestic tax regulations, administrative procedures, business practices, and stakeholder relationships enables them to evaluate tax avoidance opportunities more effectively while remaining within the legal framework. As managerial experience accumulates over time, local CEOs become increasingly capable of balancing regulatory compliance with tax efficiency. Consequently, CEO local status serves as a contextual factor that shapes the way CEO tenure influences corporate tax avoidance.

Robustness Test

Coarsened Exact Matching

Endogeneity also presents important challenges related to data comparability, particularly when the observational characteristics between samples are not sufficiently similar, as this condition may lead to biased estimation results. In empirical research, differences in sample characteristics often create systematic distortions that weaken the validity of statistical inferences. To address this issue, the concept of sample selection bias has been widely discussed and applied in previous studies [16]. In the fields of management and business studies, researchers have continuously developed and implemented various matching techniques to minimize such bias and improve the comparability of observational data. One of the most commonly used approaches is Coarsened Exact Matching (CEM) regression analysis, which is considered effective in reducing the imbalance between treatment and control groups [30].

This study adopted the CEM technique in order to achieve data comparability by splitting the sample into two classes, treatment and control classes. Classification was determined by using the independent variable CEO tenure. As such, the impact of this variable could be estimated with ease and minimal biases. Therefore, CEO tenure was categorized into a dummy variable, where it was coded as 0 if the number of years served was below the median value and 1 if above the median [27]. Subsequently, observations from both groups were matched across three strata using all control variables.

The results of the CEM regression, as reported in Table 6, are consistent with those obtained from the primary regression analysis. Those results confirm that even after restricting the analysis to matched observations with high similarity levels, CEO tenure consistently shows a negative relationship with tax avoidance. In addition, the analysis further confirms that local CEO status plays a moderating role in the relationship between CEO tenure and tax avoidance. In summary, these findings indicate that endogeneity does not appear to influence the results of this study.

Table 6. Robustness Test: CEM Regression

	0	1	
All	634	508	
Matched	615	495	
Unmatched	19	13	
	(1) TA	(2) TA	(3) TA
TENURE_LOCAL			0.004*
			(1.92)
CEOTENURE	-0.001**	-0.001**	-0.005**
	(-2.18)	(-2.45)	(-2.46)
CEOLOCAL		0.037**	0.010
		(2.44)	(0.52)
CEOAGE	0.001**	0.001**	0.001**
	(2.24)	(2.45)	(2.39)
BSIZE	-0.001	-0.000	-0.000
	(-0.39)	(-0.18)	(-0.18)
FSIZE	0.000	-0.000	-0.000
	(0.05)	(-0.06)	(-0.06)
ROE	0.511***	0.511***	0.504***
	(10.38)	(10.37)	(10.21)
_cons	-0.392***	-0.420***	-0.392***
	(-4.28)	(-4.53)	(-4.14)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
F	9.725	9.376	9.225
R2	0.148	0.152	0.156
R2_Adjusted	0.136	0.140	0.143
N	1,110	1,110	1,110

Source: Authors' own creation, 2026

Heckman Two-Stage Regression

The second robustness assessment tackles potential bias from unobserved variables by verifying that the error term does not correlate with the dependent variable. A widely used method for addressing this issue is the Heckman two-stage regression. Consistent with the approach of [28], this study employs industry-year average values of the relevant variables as instrumental variables. One factor that can affect a firm's tax avoidance policy is the CEO's leadership style, which is often shaped by their tenure as well as leadership trends within the same industry. Companies tend to follow industry practices when formulating their tax strategies, including decisions regarding the extent to which they engage in tax avoidance. In this context, the average CEO tenure within an industry is used as a suitable instrumental variable (MEAN_TENURE), as it influences strategic decision-making without directly affecting tax avoidance, except through its influence on CEO leadership behavior within the firm. In the first stage of the regression, CEOTENURE is transformed into a dummy variable, coded as 1 if the CEO tenure exceeds the median and 0 otherwise. The outcomes of the Heckman two-stage regression are presented in Table 7.

Table 7. Robustness Test: Heckman Two-Stage Regression

	(1) D_TENURE	(2) TA	(3) TA	(4) TA
MEAN_TENURE	0.152**			
	(2.33)			
TENURE_ LOCAL				0.005**
				(2.13)
CEOTENURE		-0.001**	-0.001**	-0.006***
		(-2.15)	(-2.30)	(-2.63)
CEOLOCAL	0.679***		0.063**	0.031
	(4.64)		(2.01)	(0.93)
CEOAGE	0.032***	0.000	0.002*	0.002*
	(7.88)	(0.35)	(1.96)	(1.81)
BSIZE	-0.012	-0.002	-0.003	-0.002
	(-0.73)	(-1.09)	(-1.37)	(-1.34)
FSIZE	-0.035	0.003	0.001	0.001
	(-1.17)	(0.96)	(0.25)	(0.29)
ROE	-0.132	0.299***	0.287***	0.282***
	(-0.46)	(7.45)	(7.07)	(7.03)
MILLS		-0.046*	0.058	0.049
		(-1.69)	(1.00)	(0.86)
_cons	-2.423***	-0.361***	-0.564***	-0.519***
	(-2.81)	(-3.74)	(-3.96)	(-3.59)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Pseudo R2	0.080			
F		6.173	6.023	6.077
R2		0.113	0.116	0.119
R2_Adjusted		0.100	0.102	0.106
N	1,142	1,142	1,142	1,142

Source: Authors' own creation, 2026

The first stage of the regression results indicates that MEAN_TENURE is significantly associated with the CEO's likelihood of having a longer tenure, suggesting that industry norms may influence leadership continuity at the firm level. (β = 0.152, t = 2.33, $p < 0.05$). The analysis from the second stage of the regression produces consistent findings for CEOTENURE (β = -0.001, t = -2.15, $p < 0.05$). Additionally, the results confirm that CEOLOCAL moderates the relationship between CEO tenure and tax avoidance (β = 0.005, t = 2.13, $p < 0.05$). The inverse Mills ratio (IMR) is negative and statistically significant in Model (2), indicating the presence of potential sample selection bias and justifying the use of the Heckman two-stage procedure. However, the IMR becomes statistically insignificant in Model (3) and (4), suggesting that after incorporating the additional explanatory variables, the selection bias is no longer statistically significant. This indicates that the estimated relationships in the extended models are unlikely to be materially affected by sample selection bias.

CONCLUSION

This research demonstrates the value of individual traits of the CEO, such as CEO tenure and CEO citizenship (local CEO). According to the results of the analysis, this study brings both theoretical and empirical contributions to the tax avoidance literature, as it highlights the importance of taking into account the characteristics of CEO leadership and its contexts when discussing tax policies of corporations. Although this study makes an important contribution to the literature related to Upper Echelons Theory and tax avoidance, it can be said that there are some limitations to the current research. Firstly, the scope of data collection is limited to firms with CEOs whose nationalities and tenures can be traced. Therefore, further studies in this direction are suggested to cover data from companies located in different countries and working in various industries. Secondly, the measurement of characteristics of CEOs is conducted using quantitative methods based on public documents, while individual and behavioral aspects of their characteristics remain unexplored. Overall, this study contributes to the tax avoidance literature by demonstrating that corporate tax avoidance is shaped not only by firm-level factors but also by CEO characteristics, particularly CEO tenure and local CEO status. By highlighting the interaction between these executive characteristics, the study provides both theoretical and empirical evidence supporting the application of the Upper Echelons Theory in explaining corporate tax avoidance decisions. These findings also offer several directions for future research. Future studies may extend this research by incorporating additional CEO characteristics, governance mechanisms, or institutional factors to further explain variations in corporate tax avoidance across firms.

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