WHO SHAPES TAX POLICY? DISENTANGLING CEO VERSUS CFO ABILITY IN EXPLAINING CORPORATE TAX AVOIDANCE

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Abstract

This study examines how corporate tax avoidance in Indonesia is affected by the generalist skills of chief executive officers (CEOs) and chief financial officers (CFOs). A multidimensional General Ability Index (GAI) is used to assess executive abilities following Custódio et al. (2013). Non-financial companies listed between 2022 and 2024 on the Indonesia Stock Exchange (IDX) make up the sample. The three-year long-run effective tax rate (ETR) is used as a proxy for tax avoidance and is examined using panel data with a fixed-effects regression model. The results reveal a significant interaction effect within the CEO-CFO dyad. While CFOs with high generalist abilities are associated with more aggressive tax strategies, this tendency is attenuated when firms are led by CEOs with high generalist abilities. The interaction between the CEO and CFO functions as an internal governance mechanism that balances tax efficiency and regulatory compliance. This study extends upper echelons theory (Hambrick & Mason, 1984) by shifting the analytical focus from individual executive characteristics to CEO-CFO synergy in explaining corporate tax behavior. The findings imply that tax authorities should incorporate governance-based risk assessments, while firms may leverage CEO-CFO role alignment as a strategic tool for managing tax-related risks.

Keywords: Tax Avoidance, CEO, CFO, General Ability, Executive Characteristic

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1. INTRODUCTION

Corporate tax avoidance is no longer merely a private financial decision; it is a central strategic choice with profound socio-economic implications (Duhoon & Singh, 2023; Li et al., 2022). Particularly in emerging markets like Indonesia, where tax serves as the backbone of national revenue, aggressive tax planning by large firms transcends firm-level performance to impact the distribution of public tax burdens and fiscal trust (Beer et al., 2020; François & Vicard, 2023). While managers treat tax as a lever to boost post-tax profits and meet shareholder expectations, this behavior simultaneously exposes

firms to substantial non-tax risks, including regulatory penalties, reputational damage, and political backlash (Desai et al., 2007; Duhoon & Singh, 2023). These non-tax costs create an incentive for senior executives to balance tax savings against enforcement and reputational exposure (McClure et al., 2018). Consequently, tax decisions made by top executives are now under unprecedented scrutiny from tax authorities and the public, positioning the quality of top-level governance as a critical determinant of financial transparency (Hasan et al., 2017).

Despite its significance, conventional research remains inconclusive. Traditional studies have attempted to link firm-specific factors such as profitability, leverage, and size to tax behavior, yet the results are often contradictory and leave a substantial "unexplained variance" in the literature (Armstrong et al., 2012; Chen et al., 2010; Khanh Linh et al., 2025; Mocanu et al., 2021). This variety suggests that financial metrics alone fall short of providing a complete explanation, shifting scholarly attention toward upper echelons theory, which maintains that organizational outcomes are reflections of the values and cognitive foundations of top executives (Hambrick & Mason, 1984).

The core problem addressed in this study is the insufficient understanding of how the general abilities of chief executive officers (CEOs) and chief financial officers (CFOs) quantified through a comprehensive General Ability Index (GAI) interact to influence corporate tax avoidance, particularly in the long run. Despite the consensus that executive traits matter, the specific dynamics of the CEO-CFO "executive pair" remain under-researched. Prior studies often treat the CEO as the sole decision-maker (Plöckinger et al., 2016) or examine the CFO in isolation as the financial architect (Ge et al., 2011), thereby neglecting the potential for synergy or conflict between them. Drawing on shared leadership theory, this study posits that tax planning is not the result of a single manager's decision but is instead a product of interaction within the CEO-CFO executive pair (Chyz & Gaertner, 2018). Prior contemporary analyses treat the CEO and CFO as independent (Plöckinger et al., 2016), ignoring the inherent hierarchy and collaborative dynamics within the C-suite.

Additionally, there is a significant contextual and temporal gap regarding emerging markets. Most empirical evidence is derived from Western institutional settings with strong legal protections. In emerging markets, high managerial discretion and evolving enforcement mean executive human capital can have an amplified effect on tax behavior (Zhang et al., 2025). Moreover, the lack of long-run perspectives specifically using measures like the long-run effective tax rate (ETR) limits our understanding of whether high-ability executives pursue sustainable tax strategies or merely engage in transitory tax sheltering (Dyreng et al., 2010; Koester et al., 2017; Nguyen et al., 2025).

Through three main features, this study contributes significantly to the literature on accounting and corporate governance. By focusing on the CEO-CFO executive pair interaction rather than individual executive qualities, this study expands on the upper echelons theory. It demonstrates that tax avoidance is not the result of a single manager's decision but a product of joint executive influence. By integrating the GAI, this study reveals how the synergy between a generalist CEO and a specialized CFO creates an internal "checks and balances" system that moderates aggressive tax planning (Karavitis et al., 2025; Lee & Yoon, 2020).

The novelty of this study, therefore, lies in demonstrating that high-ability CFOs do not inevitably lead to aggressive tax avoidance; instead, the final tax outcome depends on whether the CEO has sufficient strategic capability to monitor and discipline such behavior. When both executives possess high general abilities, tax planning becomes more balanced, shifting from aggressive avoidance toward strategically sustainable tax management. This finding suggests that effective tax governance may emerge endogenously from the alignment of executive capabilities within the top management team. This research is of critical importance due to the escalating fiscal pressures in Indonesia. Optimizing tax ratios is a national priority as the government seeks to support post-pandemic prosperity and lower public debt. Our findings provide a vital "signal" for regulators, suggesting an urgent need for corporate governance reforms, such as strengthening executive background disclosure requirements.

The structure of this paper is as follows. Section 2 reviews the relevant literature and theoretical background. Section 3 presents the research methodology and variable measurement. Section 4 reports the empirical results. Section 5 discusses the implications of the findings. Section 6 concludes with the study's contributions, limitations, and future research directions.

2. LITERATURE REVIEW

Grounded in agency theory, misaligned incentives between managers and shareholders often drive aggressive tax avoidance strategies as a means to pursue private benefits amidst significant information asymmetry (Desai et al., 2007; Payamta et al., 2024). However, according to upper echelons theory, the strategic orientation of such programs is essentially determined by the unique qualities of the leadership (Hambrick & Mason, 1984). Dyreng et al. (2010) argue that individual executives play a significant role in determining the level of corporate tax avoidance. This underscores that tax decisions are not merely technical procedures but a reflection of managerial discretion.

General management skills reflect a manager's flexibility in moving between organizational environments. This idea is defined by Custódio et al. (2013) and Mbama and Mfelam (2025) define this as cross-contextual abilities developed via a variety of professional experiences, such as switching organizations and sectors or functional responsibilities. Executives who possess this skill thrive in dynamic strategy adjustment, complicated issue solving, and adaptation. Extensive experience makes executives more comfortable operating amid uncertainty. The ability to weigh strategic considerations holistically reduces the tendency to follow standard procedures alone. Highly competent leaders are more likely to take strategic risks and more adept at navigating layered decisions, according to recent studies (Custódio et al., 2013; Koester et al., 2017).

2.1. CEO's general ability and corporate tax avoidance

The upper echelons of a firm significantly dictate its tax strategy, establishing a stable personal "tax style" that follows the individual executive rather than the firm (Hambrick & Mason, 1984). This style is often driven by behavioral traits; for instance, CEO overconfidence, narcissism, and greed have been consistently linked to more aggressive tax strategies, as these leaders tend to underestimate litigation risks while overestimating the benefits of tax savings (Araújo et al., 2021; Xu, 2024). Risk-seeking CEOs, such as those holding private pilot licenses, are documented to have significantly lower ETRs than standard firm-level controls (Baghdadi et al., 2022).

Using Indonesian data, Sutrisno et al. (2023) find that firms led by founder or descendant CEOs exhibit distinct tax avoidance behavior, which subsequently affects firms' future risk profiles, while Siahaan (2025) finds that executive characteristics directly increase tax avoidance. However, this aggressiveness is often a matter of sophistication; CEOs with higher general ability are better equipped to integrate complex tax planning into broader corporate strategies, aimed at reducing long-run tax burdens (Koester et al., 2017; Lee & Yoon, 2020; Rashid, 2018). Thus, while the CEO sets the strategic "tone", their ability to manage the trade-off between tax efficiency and reputational risk remains the primary determinant of corporate tax outcomes.

H1: The CEO's general ability is associated with corporate tax avoidance.

2.2. CFO's general ability and the execution of tax strategies

Hjelström et al. (2020) find that the personal tax behavior of CFOs correlates strongly with corporate tax aggressiveness, even more consistently than that of CEOs. CFOs oversee internal tax teams and financial reporting, deciding on tax planning structures, recognition of deferred taxes, and disclosure of ETRs (Chen et al., 2020; Mura, 2023). A study by Karavitis et al. (2025) in China reveals that the work experience of CFOs has a significant effect on corporate tax avoidance practices, with experienced CFOs being more adept at optimizing tax planning opportunities and navigating regulatory complexities. Research by Chen et al. (2020) also highlights that the accounting expertise of CFOs influences the aggressiveness of tax avoidance, with the intensity depending on the compensation scheme. Risk-based incentives encourage accounting-savvy CFOs to engage in more aggressive tax planning. Ultimately, CFO individual traits, including personal tax behavior and professional work experience, are critical determinants of corporate tax aggressiveness (Feng et al., 2009; Hsieh et al., 2018; Sutrisno & Pirzada, 2020).

H2: The CFO's general ability is associated with corporate tax avoidance.

2.3. Interaction between CEO's and CFO's general ability

Corporate tax avoidance rarely results from autonomous decision-making; instead, it emerges from the intricate synergy between CEO and CFO traits (Hsieh et al., 2018). While CEOs exert long-lasting impacts on ETRs (Baghdadi et al., 2022; Hsu & Lee, 2024; Kohlbeck & Wang, 2025), those effects may depend on whether the CFO's technical capability amplifies or constrains the tax posture set by the CEO. Treating CFO general ability solely as an independent determinant would capture its direct financial-architect role, but would overlook the novel possibility that the same CFO capability becomes more or less consequential depending on the CEO's strategic oversight capacity.

For instance, CEO extraversion often drives risk-taking, whereas CFO conscientiousness serves as a counterbalancing force (Harrison & Malhotra, 2024). Ambition-driven CEOs and vigilance-focused CFOs ensure that strategic goals remain grounded, optimizing both performance and risk management (Harrison & Malhotra, 2024). Similarly, a promotion-focused (ambition-driven) CEO and a prevention-focused (vigilance-driven) CFO can keep organizational goals grounded, thereby supporting performance and risk management (Firk et al., 2024).

In this context, CFO general ability (GAI) acts as a critical "gatekeeper". A highly qualified CFO possesses the technical expertise to operationalize complex tax strategies initiated by the CEO, while simultaneously ensuring these measures do not jeopardize long-term corporate viability. For this reason, the CFO's general ability is theoretically relevant in two ways: first, as a direct driver of tax planning sophistication; and second, as an interaction factor that conditions whether CEO strategic preferences are translated into aggressive or sustainable tax outcomes.

The novelty of this study lies precisely in testing this second channel. It proposes that high-ability CFOs do not automatically produce more aggressive tax avoidance; rather, their expertise may be disciplined when paired with high-ability CEOs who are better able to evaluate reputational costs, regulatory scrutiny, and long-term organizational risk. When both executives possess high GAI, a balanced strategic environment is fostered. In highly regulated environments, this synergy is expected to reinforce a reputation-safe tax posture, thereby enhancing compliance through sophisticated risk-monitoring.

H3: The relationship between the CEO's general ability and tax avoidance is stronger when the CFO's general ability is higher.

3. RESEARCH METHODOLOGY

3.1. Sample selection

The sample consists of non-financial firms listed on the Indonesia Stock Exchange (IDX) over the period 2020–2024. The focus on non-financial firms is intended to avoid potential bias arising from the distinct regulatory framework and financial reporting characteristics of financial institutions, particularly in relation to taxation and income recognition.

The 471 non-financial enterprises make up the original sample, yielding 2,355 firm-year data. To ensure the availability, consistency, and dependability of the financial data utilized in the study, a number of screening processes are carried out. First, due to incomplete financial statements throughout the observation period,

34 businesses (170 firm-year observations) are not included. Second, three firms (15 firm-year observations) are removed because their fiscal year-end does not consistently end on December 31, which may reduce comparability across firms and years. Third, because their financial statements are presented in currencies other than Indonesian Rupiah (IDR), 44 businesses (220 firm-year observations) are not included. Fourth, 234 firms (1,170 firm-year observations) are eliminated due to inconsistent reporting of positive pre-tax and post-tax income during the study period. The interpretation of tax avoidance behavior may be weakened when firms report negative profitability, which can generate economically uninterpretable ETR values. Lastly, 13 companies (351 firm-year data) are eliminated since their ETR values are not between 0 and 1, which suggests unusual accounting or tax circumstances. Following the application of all selection criteria, 143 non-financial enterprises make up the final sample, which yields 429 firm-year data.

3.2. Measurement of the variables

3.2.1. Dependent variable

In accordance with Dyreng et al. (2008), corporate tax avoidance is quantified using a three-year long-run ETR (*ETR_LR3Y*) (Bougacha & Guedrib, 2024; Cao et al., 2021). The long-run approach is superior to annual measures as it effectively smooths out transitory fluctuations in taxable income and tax expenses, providing a more accurate representation of a firm's persistent tax planning strategy (Chen et al., 2020; Dyreng et al., 2010; Hanlon & Heitzman, 2010). *ETR_LR3Y* is computed for each firm-year by dividing the total income tax cost for the preceding three years by the total pre-tax income for the same period. The *ETR_LR3Y* measure is truncated to the range [0, 1], and firm-year observations with negative cumulative pre-tax income are excluded. This exclusion is necessary because an ETR is economically uninterpretable when the denominator is negative, as it no longer reflects a meaningful tax burden relative to profitability (Christensen et al., 2022; Higgins et al., 2015; Menicacci & Simoni, 2024). Under this standardized measurement, lower values of *ETR_LR3Y* consistently indicate higher levels of corporate tax avoidance, representing a strategic reduction in the firm's tax liability relative to its economic income (Badertscher et al., 2013; Delgado et al., 2023; Richardson & Lanis, 2007).

$$ETR\_LR3Y = \frac{\sum_{t=1}^{3} Income\ tax\ expense_t}{\sum_{t=1}^{3} Income\ before\ tax_t} \quad (1)$$

As a robustness check, corporate tax avoidance is alternatively measured using a three-year current ETR (*CTR_LR3Y*), defined for each firm-year as the sum of total current tax expense over the previous three years divided by the sum of pre-tax income over the same period. This measure strips away the influence of deferred tax accruals, focusing purely on current tax liabilities (Athira & Ramesh, 2023; Cao et al., 2021; Dyreng et al., 2010; Lisowsky et al., 2013).

$$CTR\_LR3Y = \frac{\sum_{t=1}^{3} Current\ income\ tax\ expense_t}{\sum_{t=1}^{3} Income\ before\ tax_t} \quad (2)$$

3.2.2. Independent variables

General Ability Index of the CEO

Following Custódio et al. (2013), GAI of the CEO (*GAI_CEO*) is constructed based on five components reflecting the breadth of a CEO's career experience. These components include:

1) the number of different positions held during the CEO's career (*CEO_DIFFPOSITION*);

2) the number of prior firms where the CEO has worked (*CEO_NOFIRM*);

3) the number of industrial fields in which the CEO has been employed (*CEO_NOINDUSTRIAL*);

4) an indicator variable equal to one if the CEO has prior experience as a CEO in another firm, and zero otherwise (*CEO_PRIORCEO*);

5) an indicator variable equal to one if the CEO has experience working in a multi-division firm, and zero otherwise (*CEO_MULTIDIVISION*).

Together, these metrics show the breadth and variety of management exposure, which is more indicative of the development of general managerial abilities than firm-specific knowledge. The career history data required to construct the GAI were manually hand-collected from multiple authoritative and triangulated sources. The biographical data required to construct the GAI were manually hand-collected from official corporate disclosures. The primary sources for executive profiles were the annual reports and sustainability reports published by firms listed on the IDX. Profiles were cross-referenced with market databases and official corporate websites to ensure chronological accuracy.

General Ability Index of the CFO

This study constructs GAI of the CFO (*GAI_CFO*) by adapting the general ability concept to the functional role of CFOs (Karavitis et al., 2025). The index is based on four indicators that capture the diversity and depth of a CFO's professional background:

1) the number of firms previously worked for (*CFO_NOFIRM*);

2) the number of departments or functional areas in which the CFO has served (*CFO_NODEPARTMENT*);

3) the number of different positions held throughout the CFO's career (*CFO_DIFFPOSITION*);

4) an indicator variable that equals 1 if a CFO has had political connections or has served for military organizations and government agencies, and zero otherwise (*CFO_POLITICALTIE*).

According to Hao et al. (2023), executives with military or government experience bring rich social resources, exposure to complex hierarchical structures, and a deep familiarity with regulatory and political environments. These backgrounds foster a unique managerial style characterized by high-pressure resistance and a disciplined approach to organizational culture.

3.2.3. Moderating variable

The general ability of CFOs is used as a moderating variable to test whether CFO experience influences the relationship between CEO general ability and corporate tax avoidance. The interaction variable is formed from the product of $GAI\_CEO \times GAI\_CFO$ after both are mean-centered to reduce multicollinearity.

3.2.4. Control variables

Following prior studies on tax avoidance, this study includes a parsimonious set of control variables capturing executive characteristics, firm fundamentals, and corporate governance attributes that may influence corporate tax behavior (Salehi et al., 2024).

At the CEO level, we control for gender (*CEO_GENDER*; 1 = male), age (*CEO_AGE_*), retirement proximity (*CEO_RETIRE*; 1 if age ≥ 58 years old), current executive positions (*CEO_CURRPO*), and stock ownership (*CEO_STOCKOWN*) (Camporesi, 2024; Loukil & Yousfi, 2023; Mukherjee & Sen, 2022). These variables draw attention to differences in risk tolerance, experience, power, and incentive systems that may influence choices about tax avoidance.

At the CFO level, we include the following controls:

- gender (*CFO_GENDER*);
- age (*CFO_AGE*);
- foreign education (*CFO_FOREIGNEDU*);
- foreign work experience (*CFO_FOREIGNEXP*);
- industrial experience (*CFO_NOINDUSTRIAL*);
- retirement proximity (*CFO_RETIRE*);
- current executive positions (*CFO_CURRPOS*);
- and stock ownership (*CFO_STOCKOWN*).

These traits, which are pertinent to tax planning and compliance, capture variation in financial expertise, institutional exposure, and decision-making styles that can shape firms' tax avoidance behavior (Donatella & Tagesson, 2021; Yu, 2021; Zhang & Zhao, 2024).

At the firm level, we control for firm size (*FIRMSIZE*), firm age (*FIRMOLD*), sales growth (*SALESGROWTH*), liquidity (*LIQUIDITY*), profitability (*PROFITABILITY*), and solvability (*SOLVABILITY*), which are commonly associated with firms' tax planning capacity and constraints (Alqatan et al., 2025; Mansikkamäki, 2023; Rudyanto & Pirzada, 2021; Salehi et al., 2024).

Finally, corporate governance controls include audit committee size (*AUDITCOMMITTEE*) and institutional ownership (*INSTOWN*), capturing monitoring effectiveness and ownership pressure that may limit managerial opportunism in tax-related decisions (Giannopoulos et al., 2025; Salehi et al., 2024).

To address potential distortions from extreme values, all continuous variables are winsorized at the 1st and 99th percentiles. Dummy variables are not winsorized, as they represent categorical information. To minimize multicollinearity, selected continuous variables (e.g., CEO age, CFO age, firm size, audit committee size, and institutional ownership) are mean-centered before running regressions (Allam, 2018). All analyses are conducted using the final cleaned dataset.

3.3. Construction of the General Ability Index using principal components analysis

The general ability of CEOs and CFOs is measured using a composite index constructed through principal components analysis (PCA). Prior to conducting PCA, all variables are standardized, so that they have a mean of zero and a standard deviation of one. Standardisation is performed, so that variables with different units do not dominate the results, allowing each component to contribute equally to the analysis. PCA is then applied separately to the CEO and CFO experience variables to extract their common variation and to obtain a parsimonious measure of general managerial ability. Based on the eigenvalue criteria and consistent with previous research, we selected the first principal component that explained the largest proportion of variance. All basic variables had positive loadings on this component, indicating that the first factor successfully captured the breadth of executive experience as a whole.

The factor scores from the first principal component were used as the GAI for CEOs (*GAI_CEO*) and CFOs (*GAI_CFO*). Higher GAI values reflect the diversity and breadth of past professional experience, indicating a higher level of general managerial ability. The GAI for CEO (*GAI_CEO*) is constructed as a weighted linear combination of the standardized experience variables, where the weights correspond to the factor loadings obtained from the first principal component and presented in Eq. (3). Similarly, the GAI for CFO (*GAI_CFO*) is constructed using factor loadings from the first principal component of CFO experience variables and presented in Eq. (4).

$$GAI\_CEO = 0.3977 \times CEO\_DIFFPOSITION_Z + 0.5335 \times CEO\_NOFIRM_Z + 0.5339 \times CEO\_NOINDUSTRIAL_Z + 0.4250 \times CEO\_PRIORCEO_Z + 0.3026 \times CEO\_MULTIDIVISION_Z \quad (3)$$

$$GAI\_CFO = 0.6683 \times CFO\_DIFFPOSITION_Z + 0.5484 \times CFO\_NODEPARTMENT_Z + 0.4966 \times CFO\_NOFIRM_Z + 0.0778 \times CFO\_POLITICALTIE_Z \quad (4)$$

To facilitate interpretation and comparability across regression models, both *GAI_CEO* and *GAI_CFO* are subsequently standardized, with higher values indicating greater general managerial ability.

The main empirical tests employ a fixed-effects panel regression model with clustered standard errors at the firm level to account for unobserved firm-level heterogeneity and within-firm variation over time. Alternative empirical approaches could also be applied in this research context, including random effects models, instrumental variable approaches, dynamic panel estimators such as system generalized method of moments (GMM), and difference-in-differences designs based on executive turnover events. While these methods may address potential endogeneity or dynamic persistence in tax behavior, the fixed-effects panel model used in this study is particularly suitable for controlling for time-invariant firm-specific characteristics that may influence corporate tax avoidance.

4. RESEARCH RESULTS

4.1. Descriptive statistics

Table 1 presents the descriptive statistics for all study variables. The average long-run ETR (*ETR_LR3Y*) is 0.208, while the cash ETR (*CETR_LR3Y*) shows a slightly lower mean of 0.196 (std. dev. = 0.085). Both measures fall below the statutory corporate tax

rate in Indonesia, indicating moderate tax avoidance practices with significant variation, as evidenced by the *CETR_LR3Y* ranging from 0.01 to 0.474. The GAI for CEOs and CFOs, standardized via PCA, exhibits substantial dispersion, with the interaction term (mean = 0.302) reflecting meaningful diversity in executive pair dynamics across firms.

Executive profiles reveal a male-dominated landscape, particularly for CFOs (70.9%). Potential career horizon effects are present, with 55.9% of CEOs and 34.2% of CFOs approaching retirement age. Equity incentives also differ, with CEOs holding 4.5% ownership compared to only 0.2% for CFOs. Firm-level data indicate a mature sample (average age of 41 years old) with an average return on assets (ROA) of 8.5% and leverage of 0.526. Governance and liquidity variables show sufficient variation, and all continuous variables remain within reasonable ranges following winsorization, supporting the suitability of the data for multivariate analysis.

Table 1. Descriptive statistics for all study variables

Variable	*Mean*	*Std. dev.*	*Min*	*Max*
ETR_LR3Y	0.208	0.078	0.001	0.441
CETR_LR3Y	0.196	0.085	0.001	0.474
GAI_CEO	0	1	-1.889	3.096
GAI_CFO	0	1	-2.311	2.78
GAI_INTERACTION	0.302	1.013	-2.094	5.91
CEO_GENDER	0	0.294	-0.904	0.096
CEO_BGEDU	0.441	0.497	0	1
CEO_AGE	0	9.599	-20.319	23.681
CEO_RETIRE	0.559	0.497	0	1
CEO_STOCKOWN	0.045	0.115	0	0.52
CEO_CURRPO	1.612	1.448	0	7
CFO_GENDER	0.709	0.455	0	1
CFO_AGE	0	8.053	-19.533	18.467
CFO_FOREIGNEXP	0.254	0.436	0	1
CFO_FOREIGNEDU	0.411	0.493	0	1
CFO_RETIRE	0.342	0.475	0	1
CFO_NOINDUSTRIAL	2.365	1.08	1	6
CFO_CURRPOS	0.949	0.979	0	3
CFO_STOCKOWN	0.002	0.014	0	0.132
LIQUIDITY	3.124	3.011	0.291	15.441
PROFITABILITY	0.085	0.065	0.002	0.313
SOLVABILITY	0.526	1.516	0.043	14.345
AUDITCOMMITTEE	0	0.321	-1.049	1.951
INSTOWN	0	0.248	-0.65	0.343
FIRMSIZE	0	1.78	-4.615	4.354
FIRMOLD	41.175	20.364	9	117
SALESGROWTH	0.091	0.213	-0.429	1.015

4.2. Correlation matrix and multicollinearity diagnostics

The Pearson correlation matrix results (see Table A.2) indicate that *GAI_CEO* is significantly and positively correlated with *ETR_LR3Y* (r = 0.1724). This provides preliminary evidence that high-ability generalist CEOs are associated with higher ETRs, suggesting that broad managerial expertise contributes to more compliant tax strategies. Similarly, *GAI_CFO* exhibits a positive relationship with ETR (r = 0.120). Notably, the correlation between *GAI_CEO* and *GAI_CFO* is 0.3011, suggesting a tendency for firms to employ executive pairs with commensurate ability levels, a phenomenon consistent with elective matching, yet this value remains well below the critical threshold for multicollinearity concerns. Crucially, the correlations among the core variables of interest (*GAI_CEO, GAI_CFO*, and their interaction term) remain at low-to-moderate levels, indicating that the regression model is unlikely to be biased by serious multicollinearity.

4.3. Regression results

The findings of panel data regression examining the impact of managerial ability on tax avoidance (ETR) are shown in Table A.2. With an R-squared of 0.394, this model's independent variables may account for 39.4% of the variation in corporation tax policy, which is substantial for behavioral accounting research. The regression results show contrasting but complementary findings between the company's two top leaders.

The regression results reveal that *CEO_GAI* has a coefficient of 0.028 with a p-value of 0.023 (< 0.05). This indicates that CEOs with higher general ability are associated with higher ETRs (lower tax avoidance). Consistent with a risk-return trade-off, generalist CEOs may prioritize long-term reputational sustainability and regulatory compliance over short-term tax savings. *GAI_CFO* has a coefficient of -0.026 (p = 0.006), significant at the 1% level. This finding indicates that generalist CFOs are associated with lower ETRs (higher tax avoidance). Experienced CFOs may use their skills as "financial architects" to maximize cash-flow efficiency through more aggressive tax planning. A split of strategic functions is indicated by the opposite coefficient signs for CEOs (+) and CFOs (-): CEOs emphasize strategic alignment and risk containment, whereas CFOs emphasize tax efficiency and cash preservation.

4.4. Moderating effects

To gain a deeper understanding of how managerial ability shapes tax outcomes, this study examines the moderating effect of the CEO-CFO interaction. The association between CEO general ability and corporate tax outcomes is significantly moderated by CFO general ability, as indicated by the positive and highly significant interaction term

(*GAI_CEO* × *GAI_CFO*) (0.039, p < 0.01). This result is the main novelty of the study. It shows that the CFO's general ability should not be interpreted only as a direct driver of aggressive tax planning, but also as a conditional factor that determines whether the CEO's strategic oversight can effectively shape tax outcomes. In other words, high-ability CFOs do not inevitably lead firms toward more aggressive tax avoidance; rather, when they are paired with high-ability CEOs, their technical expertise appears to be redirected toward more balanced and strategically sustainable tax management.

4.5. Analysis of control variables

The empirical analysis of control variables reveals a complex interplay between executive personal characteristics, governance structures, and financial conditions in shaping tax outcomes. Regarding executive traits, *CFO_AGE* shows a significant positive relationship with ETR (p = 0.000), aligning with Feng et al. (2019), who suggest that more mature managers often adopt conservative tax strategies.

In contrast, *CFO_FOREIGNEDU* exhibits a strong negative impact on ETR (p = 0.001), supporting the findings of Barbera et al. (2020) that international education may empower CFOs to implement more sophisticated tax-saving strategies. For the variable *CEO_RETIRE*, this study adopts the logic of Karavitis et al. (2025) by using an indicator variable for executives nearing retirement age, specifically adjusted to the threshold of 58 years. This adjustment is directly aligned with the institutional context of Indonesia, referencing Government Regulation (PP) No. 45 of 2015, which established the initial retirement age at 85 years old. The marginally significant positive effect (p = 0.056) suggests that as CEOs approach this career horizon, they tend to prioritize reputational safety and firm stability over aggressive tax avoidance to secure their professional legacy and minimize post-retirement legal risks (Belenzon et al., 2019; James, 2020). Furthermore, the impact of governance and financial status provides critical insights. Institutional ownership (*INSTOWN*) is found to have a highly significant negative effect on ETR (p = 0.000), consistent with the view of Cui (2024) and Velte (2023) that institutional investors often pressure management to maximize after-tax returns through tax efficiency.

4.6. Robustness check: Alternative measure of tax avoidance

An alternate measure of tax compliance, the long-run current ETR (*CETR_LR3Y*), was used as a robustness check to assess the validity and consistency of the main findings. The results remain largely consistent. CFO general ability continues to exhibit a negative and statistically significant association with *CETR_LR3Y* (β = -0.0106, p < 0.05), while the interaction term remains positive and significant (β = 0.0087, p < 0.05). Although the CEO's general ability becomes statistically insignificant in this specification, the overall pattern of results supports the robustness of the moderating effect. The consistency in sign and significance across the two models indicates that the core findings generalize to both accounting-based tax burden measures and cash-based tax payments.

Table 2. Robustness check

Variable	*(1)*			*(2)*		
	ETR_LR3Y			*CETR_LR3Y*		
	β	***Std. dev.***	***p***	***β***	***Std. dev.***	***p***
GAI_CEO	0.0283667*	0.0123295	0.0230643	0.0071048	0.005747	0.2163631
GAI_CFO	-0.0259796**	0.0092449	0.0057499	-0.0106513*	0.0050877	0.0363017
GAI_INTERACTION	0.0390326***	0.009127	0.0000373	0.0087889*	0.0036086	0.0148685
CEO_GENDER	0.0174968	0.0288928	0.5458949	-0.0074529	0.0108136	0.4906922
CEO_BGEDU	0.0289529	0.0310568	0.3530023	-0.019981**	0.0074063	0.0069796
CEO_AGE	-0.0017658	0.001346	0.1919836	-0.0005989	0.0006321	0.3433783
CEO_RETIRE	0.0313956	0.0162684	0.0558913	0.0160049	0.0136118	0.2396704
CEO_STOCKOWN	0.0202723	0.1094512	0.8533581	0.0166366	0.0465246	0.7206518
CEO_CURRPO	-0.0055791	0.0056916	0.328861	-0.0034053	0.0030325	0.2614639
CFO_GENDER	-0.0230794	0.0258758	0.3741436	0.0066745	0.0089767	0.4571566
CFO_AGE	0.0063887***	0.001534	0.0000577	0.0007232	0.0006373	0.2564599
CFO_FOREIGNEXP	0.0357847	0.0272955	0.1922582	0.0157279	0.0111815	0.1595463
CFO_FOREIGNEDU	-0.0856059**	0.0258695	0.0012229	-0.0144552	0.0115859	0.2121573
CFO_RETIRE	-0.0146763	0.0124344	0.2401229	-0.0200439*	0.0098411	0.0416747
CFO_NOINDUSTRIAL	-0.0013226	0.0134828	0.9220106	0.0147272	0.0082569	0.074484
CFO_CURRPOS	0.0082604	0.0072633	0.2575977	-0.0023633	0.0038854	0.5430158
CFO_STOCKOWN	-0.226687	2,916.641	0.9381735	-0.8355106	0.6405064	0.1920791
LIQUIDITY	-0.0027799*	0.001392	0.0479926	-0.0017098	0.0011663	0.142668
PROFITABILITY	-0.004736	0.0767996	0.9509269	-0.0503576	0.0616486	0.4140142
SOLVABILITY	0.0385088	0.0633232	0.5442041	0.0043764	0.0023179	0.0590136
AUDITCOMMITTEE	0.0151803	0.010185	0.1386246	0.0054606	0.0130884	0.6765233
INSTOWN	-0.2070233***	0.0531884	0.0001606	-0.0032681	0.0192167	0.8649596
FIRMSIZE	-0.0709267	0.0394304	0.074466	0.0017431	0.004941	0.7242503
FIRMOLD	-0.0415034	0.0278123	0.1381486	0.0001541	0.0004168	0.7115144
SALESGROWTH	-0.0263893*	0.0117755	0.0267885	-0.0289035**	0.0100493	0.0040254
2022.YEAR	0	0.	0.	0	0.	0.
2023.YEAR	0.0309581	0.0273183	0.2592844	-0.0073557*	0.0030265	0.0150794
2024.YEAR	0.0718895	0.053956	0.1851621	-0.0091522	0.0048925	0.0613928
N	363			363		
r2_a	0.3942473					
F	8.306.652					

*Note: * p < 0.05; ** p < 0.01; *** p < 0.001.*

5. DISCUSSION

This study provides new evidence that corporate tax avoidance is not solely the result of a single executive's discretion but emerges from the strategic interaction between the CEO and CFO. Consistent with prior literature, the findings confirm that managerial ability significantly shapes firms' tax outcomes (Dyreng et al., 2010; Koester et al., 2017). However, this research extends the literature by demonstrating that the effect of managerial ability is conditional on the dynamics within the CEO-CFO dyad, rather than operating independently. The empirical results show that CFOs with higher general managerial ability are associated with lower ETRs, indicating greater engagement in tax avoidance strategies.

This finding aligns with the view that CFOs function as the firm's "financial architects", possessing the technical expertise required to design and implement complex tax planning structures (Hjelström et al., 2020; Karavitis et al., 2025). Prior studies suggest that experienced financial executives can identify sophisticated tax-saving opportunities such as income shifting, tax credit optimization, or the strategic use of deferred tax accounts (Koester et al., 2017). At the same time, retaining CFO ability as an independent variable is theoretically necessary because it captures this direct execution role, which is distinct from the conditional governance role examined through the interaction term.

The most important contribution of this study lies in the moderating role of CEO ability. The results show that the aggressive tax behavior associated with high-ability CFOs is significantly attenuated when firms are led by high-ability CEOs. This interaction produces higher ETRs, reflecting a more conservative tax posture. This executive pair mitigates excessive tax aggressiveness by aligning financial objectives with long-term strategic stability (Sulfia & Rusmanto, 2024). The novelty of this result lies in showing that CFO's general ability does not have a uniform effect on tax avoidance. Instead, its impact depends on whether the CEO possesses sufficient strategic capability to supervise and discipline the tax-planning capacity of the CFO. When both executives possess high general abilities, tax planning appears to shift away from purely aggressive avoidance and toward a more balanced form of tax management that remains efficient but more sustainable. From a strategic governance perspective, this suggests that CEOs with broad managerial experience are more capable of evaluating the broader consequences of tax strategies, including reputational costs, regulatory scrutiny, and long-term political risks (Hasan et al., 2017; McClure et al., 2018; Nguyen et al., 2025).

This finding highlights an important division of strategic roles within the top management team. While CFOs prioritize financial efficiency and tax optimization, CEOs adopt a broader strategic perspective that incorporates non-tax costs associated with aggressive tax behavior. Previous research indicates that tax avoidance often entails substantial non-tax risks, including regulatory penalties, reputational damage, and increased scrutiny from tax authorities (Desai et al., 2007; Duhoon & Singh, 2023). High-ability CEOs appear more capable of balancing these trade-offs, ensuring that tax planning strategies remain aligned with long-term corporate stability rather than short-term financial gains.

6. CONCLUSION

This study examines how the general managerial abilities of CEOs and CFOs jointly influence corporate tax avoidance. The findings reveal distinct yet complementary roles within the firm's top leadership. CFOs with higher general managerial ability are associated with lower ETRs, indicating a greater tendency toward aggressive tax planning. In contrast, CEOs with higher general managerial ability are associated with higher ETRs, reflecting a more conservative tax approach. More importantly, the significant interaction between the CEO and CFO abilities reveals that the aggressive tax strategies driven by highly capable CFOs are moderated when firms are led by highly capable CEOs.

This finding highlights the key contribution of the study: corporate tax avoidance is not driven solely by the expertise of the CFO or the leadership of the CEO individually, but by the interaction between them. Within this leadership dynamic, CFOs serve as the technical drivers of tax planning, while CEOs provide strategic oversight that constrains excessive tax aggressiveness.

These findings extend upper echelons theory by demonstrating that corporate tax outcomes are not solely driven by individual executives but by the interaction between key members of the top management team (Dyreng et al., 2010; Hambrick & Mason, 1984). These findings carry important implications for both corporate governance and regulatory oversight. For boards of directors, the results suggest that effective tax governance depends not only on the technical competence of financial executives but also on the strategic oversight capacity of the CEO. Firms that appoint highly capable CFOs without corresponding strategic leadership may face a greater risk of excessive tax aggressiveness. Conversely, aligning CFO technical expertise with CEO strategic capability can create a balanced leadership structure that mitigates tax-related risks while maintaining financial efficiency. For regulators and tax authorities, the results highlight the importance of incorporating executive characteristics into tax risk assessments. In emerging markets such as Indonesia, where managerial discretion tends to be higher and enforcement mechanisms continue to evolve, the composition of the top management team may play a decisive role in determining corporate tax behavior. Recognizing the governance role of executive interactions may, therefore, help policymakers identify firms that are more likely to engage in aggressive tax strategies and design more targeted oversight mechanisms.

This study has several limitations. First, while the GAI captures the breadth of executives' professional experiences, it may not fully reflect psychological traits such as overconfidence or ethical orientation that may also shape tax decisions. Second, the focus on publicly listed firms in Indonesia may limit the generalizability of the findings to state-owned enterprises or other institutional settings. Third, although the long-run ETR provides a robust proxy for persistent tax

avoidance, it may still be influenced by temporary institutional shocks, such as tax policy reforms or tax amnesty programs.

Future research could extend this study by incorporating behavioral executive traits, examining other dimensions of CEO-CFO interaction, or exploring how institutional environments shape the governance role of executive leadership in corporate taxation. In addition, future studies could utilize the GMM or two-stage least squares with appropriate instrumental variables to provide stronger causal evidence on how executive interactions influence corporate tax strategies.

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APPENDIX

Table A.1. Variable definitions

Variable	*Symbols*	*Definition*
Dependent variable		
ETR	*ETR_LR3Y*	The three-year sum of income tax expense divided by the three-year sum of pre-tax income over the years (*t* - 2) to *t*.
CETR	*CETR_LR3Y*	The three-year sum of current income tax expense divided by the three-year sum of pre-tax income over the years (*t* - 2) to *t*.
Independent variables		
GAI_CEO	*GAI_CEO*	The result of principal components analysis to five general managerial ability proxies: 1) CEO different position, 2) number of firms, 3) number of industries, 4) CEO experience dummy, and 5) multidivision experience dummy.
Number of positions	*CEO_DIFFPOSITIONS*	Number of positions the CEO has had based on past work experience.
Number of firms	*CEO_NOFIRM*	Number of firms where the CEO has worked based on past work experience.
Number of industrials	*CEO_NOINDUSTRIAL*	Number of industries where the CEO has worked based on past work experience.
CEO experience dummy	*CEO_PRIORCEO*	Dummy variable that takes a value of 1 if the CEO held a CEO position at another company and 0 otherwise.
Multi-division dummy	*CEO_MULTIDIVISION*	Dummy variable that takes a value of 1 if the CEO works for a multi-division company and 0 otherwise.
GAI_CFO	*GAI_CFO*	The result of principal components analysis to four general managerial ability proxies: 1) CEO different position, 2) number of departments, 3) number of firms, and 4) political tie dummy.
Nodept	*CFO_NODEPT*	The number of different department functions in which a CFO has been employed during their career.
Different position	*CEO_DIFFPOSITION*	The number of different positions that a CFO has held.
Nofirm	*CEO_NOFIRM*	The number of firms in which the CFO has worked.
Political tie	*CEO_POLITICALTIE*	Dummy variable that takes a value of 1 if CFO has a political connection or has served for military organizations and government agencies, and 0 otherwise.
Moderating variable		
GAI interaction	*GAI_INTERACTION*	The interaction term between CEO GAI and CFO GAI.
Control variables		
CEO gender	*CEO_GENDER*	Dummy variable: 1 if CEO is male, 0 otherwise (mean).
CEO education	*CEO_BGEDU*	Dummy variable: 1 if CEO has an educational background in accounting, finance, or tax; 0 otherwise.
CFO gender	*CFO_GENDER*	Dummy variable: 1 if CFO is male, 0 otherwise.
CEO age	*CEO_AGE*	Age of the CEO in years (mean).
CEO retirement	*CEO_RETIRE*	Dummy variable: 1 if the CEO is approaching retirement age (over 58 years old), 0 otherwise.
CEO ownership	*CEO_STOCKOWN*	Ratio of shares owned by the CEO to the total outstanding shares.
CEO current positions	*CEO_CURRPO*	The total number of current positions held by the CEO.
CFO age	*CFO_AGE*	Age of the CFO in years (mean).
CFO foreign experience	*CFO_FOREIGNEXP*	Dummy variable: 1 if the CFO has work experience abroad (outside Indonesia), 0 otherwise.
CFO foreign education	*CFO_FOREIGNEDU*	Dummy variable: 1 if the CFO has attained education abroad (outside Indonesia), 0 otherwise.
Firm size	*FIRMSIZE*	The natural logarithm (Ln) of the book value of total year-end assets.
Firm age	*FIRMOLD*	The number of years the firm has been in operation.
Liquidity	*LIQUIDITY*	Current ratio, calculated as current assets divided by current liabilities.
Profitability	*PROFITABILITY*	ROA, calculated as net income divided by total assets.
Solvability	*SOLVABILITY*	Leverage ratio, calculated as total liabilities divided by total assets.
Audit committee	*AUDITCOMMITTEE*	Total number of audit committee members.
Institutional ownership	*INSTOWN*	Ratio of the number of shareholders with at least 5% ownership to total outstanding shares.
CFO retirement	*CFO_RETIRE*	Dummy variable: 1 if the CFO is approaching retirement age (over 58 years old), 0 otherwise.
CFO industrial exp.	*CFO_NOINDUSTRIAL*	The number of different industries where the CFO has worked, based on past experience.
CFO current positions	*CFO_CURRPO*	The total number of current positions held by the CFO.
CFO ownership	*CFO_STOCKOWN*	Ratio of shares owned by the CFO to the total outstanding shares.
Sales growth	*SALESGROWTH*	Calculated as: (sales *t* - sales *t* - 1) divided by sales *t* – 1.

Table A.2. Pairwise correlations

Variables	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*	*(12)*	*(13)*	*(14)*	*(15)*	*(16)*	*(17)*	*(18)*	*(19)*	*(20)*	*(21)*	*(22)*	*(23)*	*(24)*	*(25)*	*(26)*
(1) *ETR_LR3Y*	1.000																									
(2) *GAI_CEO*	0.172*	1.000																								
(3) *GAI_CFO*	0.120*	0.301*	1.000																							
(4) *GAI_INTERACTION*	0.042	-0.036	-0.013	1.000																						
(5) *CEO_GENDER*	0.070	0.063	0.006	0.088*	1.000																					
(6) *CEO_BGEDU*	0.030	-0.023	0.083	-0.082*	-0.022	1.000																				
(7) *CEO_AGE*	0.031	0.288*	-0.075	0.033	0.227*	-0.080	1.000																			
(8) *CEO_RETIRE*	0.029	0.244*	0.035	0.034	0.207*	-0.035	0.774*	1.000																		
(9) *CEO_STOCKOWN*	-0.127*	-0.003	-0.141*	-0.067	-0.103*	0.013	-0.051	-0.121*	1.000																	
(10) *CEO_CURRPO*	0.072	0.481*	0.067	0.074	0.028	0.072	0.254*	0.197*	0.201*	1.000																
(11) *CFO_GENDER*	0.049	-0.094*	0.076	0.080	-0.038	-0.061	-0.073	-0.157*	0.065	-0.113*	1.000															
(12) *CFO_AGE*	0.035	0.117*	0.023	0.005	0.008	0.044	0.146*	0.088*	0.080	0.047	0.241*	1.000														
(13) *CFO_FOREIGNEXP*	0.105*	-0.001	0.017	-0.033	0.012	-0.047	-0.045	0.004	-0.103*	-0.102*	0.042	-0.077	1.000													
(14) *CFO_FOREIGNEDU*	-0.018	-0.055	0.020	0.025	-0.195*	-0.113*	-0.009	0.069	-0.073	-0.106*	0.047	-0.096*	0.562*	1.000												
(15) *CFO_RETIRE*	-0.041	0.035	-0.128*	0.060	0.106*	0.037	0.137*	0.123*	0.132*	0.002	0.170*	0.756*	-0.054	-0.078	1.000											
(16) *CFO_NOINDUSTRIAL*	0.161*	0.315*	0.449*	-0.001	-0.056	-0.077	-0.002	0.087*	-0.003	0.066	0.159*	-0.036	0.224*	0.114*	-0.118*	1.000										
(17) *CFO_CURRPOS*	0.070	0.480*	0.392*	0.128*	0.069	-0.104*	0.213*	0.202*	-0.049	0.382*	-0.028	0.105*	-0.119*	0.061	0.033	0.259*	1.000									
(18) *CFO_STOCKOWN*	-0.078	0.082	-0.177*	0.126*	0.046	-0.011	0.234*	0.140*	0.270*	0.103*	-0.020	0.181*	0.020	0.040	0.202*	-0.131*	0.062	1.000								
(19) *LIQUIDITY*	-0.079	-0.139*	-0.125*	0.073	-0.062	0.112*	-0.014	-0.069	0.070	0.052	-0.045	0.055	-0.115*	-0.108*	0.065	-0.060	-0.133*	-0.044	1.000							
(20) *PROFITABILITY*	-0.113*	-0.133*	0.025	-0.035	-0.191*	0.081*	-0.088*	-0.039	0.034	-0.076	-0.149*	0.024	0.141*	0.064	0.041	-0.124*	-0.102*	0.003	0.080*	1.000						
(21) *SOLVABILITY*	0.108*	-0.062	0.071	-0.066	0.043	0.020	-0.011	-0.030	-0.062	-0.042	-0.017	0.054	0.049	0.002	0.061	-0.015	-0.042	-0.021	-0.142*	0.073	1.000					
(22) *AUDITCOMMITTEE*	0.024	-0.009	-0.048	-0.010	0.050	-0.063	-0.039	0.033	-0.138*	-0.218*	0.029	0.008	0.073	0.086*	0.051	0.104*	-0.108*	-0.071	-0.139*	-0.146*	0.003	1.000				
(23) *INSTOWN*	0.130*	0.114*	0.058	-0.135*	-0.205*	0.144*	-0.106*	-0.029	-0.395*	-0.027	-0.104*	-0.118*	0.098*	0.013	-0.205*	0.006	-0.104*	-0.317*	-0.054	0.093*	0.047	0.059	1.000			
(24) *FIRMSIZE*	0.024	0.240*	0.194*	0.113*	0.077	0.094*	0.154*	0.210*	-0.243*	0.067	0.144*	0.183*	0.010	-0.002	0.093*	0.064	0.354*	-0.049	-0.337*	-0.087*	-0.239*	0.271*	0.024	1.000		
(25) *FIRMOLD*	0.072	-0.055	0.062	0.042	-0.053	0.049	0.085*	0.039	-0.185*	-0.221*	0.044	0.123*	0.203*	0.112*	0.143*	0.005	-0.108*	-0.061	-0.034	0.209*	-0.031	0.241*	0.052	0.323*	1.000	
(26) *SALESGROWTH*	-0.118*	0.026	-0.015	-0.034	-0.114*	-0.082*	-0.054	-0.034	0.008	-0.023	-0.011	-0.006	0.070	-0.001	0.032	0.014	-0.043	0.001	-0.193*	0.106*	0.034	-0.024	0.033	-0.090*	-0.111*	1.000

*Note: * shows significance at p < 0.1.*