

THE IMPACT OF DIRECTORS' REPUTATION ON TAX AGGRESSIVENESS: AN ACCOUNTING PERSPECTIVE IN INDONESIA BEFORE AND DURING COVID-19

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ABSTRAK

Penelitian ini menguji pengaruh reputasi direksi terhadap agresivitas pajak, dengan mengeksplorasi dinamika tersebut sebelum dan selama pandemi Covid-19. Berdasarkan sampel 2.662 observasi dari perusahaan publik di Bursa Efek Indonesia (2017-2021), hasil analisis menunjukkan bahwa pengaruh reputasi direksi tidaklah sederhana dan bergantung pada pengukurannya. Di satu sisi, pengukuran LnMULTIPLE berhubungan negatif dengan agresivitas pajak, mengindikasikan bahwa direksi dengan reputasi kuat justru menghindari strategi pajak yang agresif. Sebaliknya, pengukuran AVGMULTIPLE justru menunjukkan hubungan positif, yang menyiratkan bahwa reputasi yang lebih lemah dapat mendorong perilaku agresif dalam perpajakan. Lebih lanjut, studi ini mengungkap bahwa hubungan kompleks ini juga dipengaruhi oleh faktor kontekstual, dimana dampak reputasi direksi terbukti lebih signifikan sebelum periode pandemi. Temuan ini mempertegas peran kondisi situasional dalam membentuk perilaku pajak perusahaan. Kebaruan penelitian tidak hanya terletak pada penggunaan multi-pengukuran reputasi, tetapi juga pada analisis peran Return on Assets (ROA) dan pemeriksaan faktor disruptif seperti pandemi, sehingga memberikan perspektif yang lebih komprehensif dalam mempelajari dinamika perencanaan pajak.

Kata kunci: Reputasi Direksi, Agresivitas Pajak, Indonesia, Covid-19

ABSTRACT

This study examines the influence of board of directors' reputation on corporate tax aggressiveness, exploring this dynamic both before and during the Covid-19 pandemic. Using a sample of 2,662 firm-year observations from publicly listed companies on the Indonesia Stock Exchange between 2017 and 2021, the analysis reveals that the effect of reputational capital is nuanced and depends on its measurement. Specifically, the LnMULTIPLE metric shows a significant negative relationship with tax aggressiveness, suggesting that directors with strong reputations are less inclined to engage in aggressive tax strategies. Conversely, the AVGMULTIPLE metric demonstrates a positive relationship, implying that a weaker reputational standing may correlate with a greater tendency for such behavior. Furthermore, the study finds that this complex relationship is shaped by contextual factors, as the influence of director reputation was more pronounced in the pre-pandemic period. The role of Return on Assets (ROA) was also found to be a significant factor in this interplay. These findings underscore the critical role of situational contexts in shaping corporate tax behavior. The novelty of this research lies in its multi-faceted exploration, employing diverse measurements of reputational capital, analyzing the moderating effect of ROA, and investigating the unique contextual factor of the Covid-19 pandemic, thereby offering a more comprehensive perspective on tax planning dynamics.

Keywords: Board of Directors' Reputation, Tax Aggressiveness, Indonesia, Covid-19.

INTRODUCTION

In Indonesia, tax revenue constitutes the largest portion of the state budget, yet the national tax ratio remains relatively low compared to peer countries in the Asia-Pacific region. Consequently, issues of corporate tax avoidance, particularly among publicly listed companies on the Indonesia Stock Exchange (IDX), have frequently drawn intense scrutiny from the Indonesian tax authority (DJP). The implementation of Indonesia's self-assessment tax system

allows taxpayers to calculate, pay, and report their own taxes, which theoretically encourages compliance but practically provides substantial room for aggressive tax planning. Furthermore, the unprecedented disruption caused by the Covid-19 pandemic drastically altered the economic landscape. During this crisis, the Indonesian government issued various tax incentives and relief measures to stimulate economic recovery. These sudden regulatory shifts and economic pressures significantly altered standard corporate tax planning behaviors, creating a unique environment to study how corporate governance mechanisms respond to macroeconomic shocks.

Within this dynamic regulatory and economic environment, the role of corporate leadership is pivotal in determining a firm's tax strategy. Highlighting the importance of executive influence, Fredikson (2018) examines the positive relationship between the reputation of top management, specifically CEOs, and the demand for good audit quality. The study highlights reputation risk, which involves the negative impact on a firm's image and stakeholders' perceptions due to the actions of top executives. CEOs with a positive reputation are more likely to prioritize high-quality audits to maintain trust and credibility. Conversely, tax aggressiveness can damage a company's and CEO's reputation. Engaging in aggressive tax planning may be seen as unethical or illegal, leading to negative publicity and legal risks. Dhaliwal et al. (2011) found that firms with high levels of tax avoidance are more likely to be audited by the IRS, and these findings have practical implications globally, including Indonesia.

Rapid changes in regulations have led many taxpayers to become more knowledgeable about taxes. Indonesia's self-assessment tax system allows taxpayers to calculate, pay, and report their own taxes, supporting tax planning. Many corporate taxpayers (CEOs) engage in aggressive tax planning to minimize their tax payments. Tax aggressiveness is defined as tax planning through tax avoidance activities (Khurana & Moser, 2009). Timothy (2010) notes that tax avoidance is a legal service provided by accountants. Agency theory (Jensen & Meckling, 1976) explains the relationship between principals (shareholders) and agents (management). Executives may engage in aggressive tax strategies to maximize shareholder wealth, acting in their self-interest.

Dyreng et al. (2008) state that CEOs play a critical role in a company's tax aggressiveness. Powerful CEOs are more likely to engage in aggressive tax planning, influencing the company's tax decisions and philosophy. Dhaliwal et al. (2011) suggest that CEOs with substantial personal wealth have higher incentives to engage in tax planning strategies that reduce their personal tax burden. These strategies can impact the company's

overall tax aggressiveness.

This study is important for two reasons. First, tax aggressiveness in Indonesia can attract increased attention from the Indonesian tax authority (DJP). Companies engaging in significant tax avoidance should be mindful of the potential for audits and penalties, similar to the IRS in the U.S. Second, understanding tax aggressiveness helps CEOs make informed tax planning decisions, balancing legal tax benefits and managing risks (Lisowsky & Robinson, 2013). Policymakers can use these insights to design effective tax policies and enforcement strategies (Cummings, Martinez-Vazquez, & McKee, 2004). There is a research gap in understanding how director reputation influences tax behavior. This study explores this relationship, considering the influence of ROA and the context of the COVID-19 pandemic, contributing to a comprehensive understanding of director reputation and tax behavior.

By examining the association between board directors' reputation and tax aggressiveness, this study provides insights for practitioners and policymakers in accounting, taxation, and corporate governance. The findings aim to promote ethical and responsible tax practices globally, fostering transparency and accountability. This research is crucial for academic researchers, offering insights into tax behavior, corporate social responsibility, and ethical decision-making. Additionally, it explores the global impact of CEO reputation on the demand for high-quality audits. The study's relevance extends beyond national borders, contributing significantly to the global accounting literature.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory and Tax Aggressiveness

Agency theory, as proposed by Jensen and Meckling (1976), highlights the inherent conflict of interest between principals (shareholders) and agents (management). In the context of corporate taxation, management may engage in aggressive tax strategies defined as the downward management of taxable income through tax avoidance activities (Khurana & Moser, 2009) to minimize cash outflows and maximize shareholder wealth, or to extract personal rent. Because tax aggressiveness carries significant risks, including tax audits, penalties, and severe damage to corporate image, strong internal governance mechanisms are required to monitor and control management's opportunistic tax behavior. The board of directors serves as the primary mechanism for this oversight.

Directors' Reputation and Tax Aggressiveness

The reputational capital of directors plays a critical role in shaping corporate governance effectiveness. Directors holding multiple directorships are often perceived as highly competent,

vigilant monitors, and preferred figures in the corporate market (Shivdasani, 1993; Bugeja, Rosa, & Lee, 2009). When evaluating the aggregate reputational capital of the board (measured by the total outside board seats, or LnMULTIPLE), a high level indicates that the directors possess significant prestige and broad networks. To protect this valuable reputational capital from public scandals, legal scrutiny, and negative publicity, highly reputable boards are more likely to enforce ethical compliance and curb overly aggressive tax strategies (Johnson, Kasipillai, & Koh, 2012). Therefore, a strong aggregate board reputation is expected to reduce the firm's tax aggressiveness.

H1a: The aggregate reputational capital of the board of directors (LnMULTIPLE) is negatively associated with tax aggressiveness.

Conversely, holding multiple directorships can also introduce a "busyness" effect. When the average number of outside directorships per board member (AVGMULTIPLE) is high, directors' time, focus, and energy become constrained. This over-commitment dilutes their ability to effectively monitor management's day-to-day decisions and opportunistic behaviors (Jiraporn, Kim, & Davidson, 2008). Consequently, this weakened oversight provides management with the necessary leeway to pursue riskier, aggressive tax positions without strict board intervention.

H1b: The average reputational capital of the board of directors (AVGMULTIPLE) is positively associated with tax aggressiveness.

The Moderating Role of Profitability (ROA)

Firm profitability, measured by Return on Assets (ROA), significantly dictates a company's operational slack and strategic flexibility. Companies with strong financial performance face less pressure to meet short-term earnings targets through risky tax reductions. In a high-ROA environment, highly reputable directors have the financial resources and flexibility to prioritize sustainable, long-term growth and reputation preservation (Smith et al., 2018). The presence of strong financial health reduces the incentive to extract cash through aggressive tax planning, thereby empowering reputable directors to firmly enforce conservative tax policies. Thus, high profitability is expected to strengthen the directors' natural inclination to avoid aggressive tax behavior.

H2: Return on Assets (ROA) strengthens the negative relationship between directors' aggregate reputational capital and tax aggressiveness.

METHOD

The initial sample consisted of firm-year observations from 2017 to 2021. Table I presents firms' distribution by the end of each year and industry.

Table 1. Sample Distribution by Industry

Industry Code and Name of Industry	
	Total
[11] Agriculture, Forestry, Fishing, and Hunting	89
[21] Mining, Quarrying, and Oil and Gas Extraction	212
[22] Utilities	32
[23] Construction	282
[31] Manufacturing	816
[42] Wholesale Trade	138
[44 - 45] Retail Trade	104
[48 - 49] Transportation and Warehousing	192
[51] Information	145
[52] Finance and Insurance	341
[53] Real Estate and Rental and Leasing	117
Industry Code and Name of Industry	
	Year of Observations
	Total
[54] Professional, Scientific, and Technical Services	37
[56] Administrative and Support and Waste Management and Remediation Services	19
[61] Educational Services	2
[62] Health Care and Social Assistance	42
[71] Arts, Entertainment, and Recreation	8
[72] Accommodation and Food Services	86
Total	2,662

Variable Definitions and Measurement

Dependent Variable

Tax Aggressiveness The dependent variable for this study is corporate tax aggressiveness. While there is no universally accepted measurement construct, this study utilizes the long-term cash Effective Tax Rate (ETR) calculated over a five-year period, in line with Dyreng et al. (2008). This method allows for the smoothing of annual variations in ETR and captures the medium- and long-term effects of a firm's tax strategy.

The selection of a five-year measurement window (from year t to $t-4$) is theoretically driven to accurately capture the long-term nature of corporate tax planning. A five-year period effectively smooths out temporary annual tax volatilities and prevents the misinterpretation of short-term tax deferrals as permanent tax avoidance, aligning perfectly with the 2017–2021 observation period. The mathematical formulation is as follows:

$$\text{Long-term Cash ETR} = \sum_{t=1}^5 \left(\frac{\text{Cash Taxes Paid (it)}}{\text{Pre-tax Income (it)}} \right)$$

The ETR values are constrained to the 0–1 range, and negative ETRs are winsorized so that the smallest observation equals 0 (Armstrong et al., 2012; Dyreng et al., 2008). Naturally, a higher ETR indicates that a company pays more taxes, representing a lower level of tax aggressiveness. To facilitate a more intuitive empirical analysis where a higher value of the dependent variable represents a higher level of aggressiveness, the calculated long-term cash ETR is multiplied by -1

$$\text{Tax Aggressiveness (ETRit)} = \text{Long-term Cash ETR} \times (-1)$$

Coefficient Interpretation

By applying this inversion, the interpretation of the regression results becomes straightforward. A positive coefficient for any independent variable (e.g., \$AVGMULTIPLE\$) implies that the variable increases the firm's tax aggressiveness (i.e., lowers their actual tax burden). Conversely, a negative coefficient (e.g., \$LnMULTIPLE\$) indicates that the variable reduces tax aggressiveness, meaning the firm is more conservative and compliant in its tax planning. Data to compute these ETRs is gathered from the Thomson Reuters database and supplemented by the firms' published financial statements.

Independent Variable:

Reputational Capital of the Directors

The independent variable in this study is the reputational capital of the board of directors. Following prior corporate governance literature (Shivdasani, 1993; Kaplan & Reishus, 1990), this study utilizes the number of multiple directorships (outside board seats) held by directors as a proxy for their reputational capital. To capture the complex and dual nature of multiple directorships, we employ two distinct measurements that carry different theoretical justifications and economic meanings:

Aggregate Reputational Capital (LnMULTIPLE)

The natural logarithm of the total (aggregate) number of outside board seats held by the company's entire board of directors. For example, if a board has five members, where two members hold one outside seat each and one member holds three, the total aggregate seats equal five. From an economic perspective, this metric captures the aggregate prestige, accumulated expertise, and network breadth of the board as a collective unit. A high LnMULTIPLE indicates that the board possesses substantial reputational capital and is highly valued in the corporate market. Consequently, they face high "reputation risk." To protect their collective prestige from the stigma of tax audits or public scandals, highly reputable boards exercise rigorous oversight and enforce ethical corporate behavior. Therefore, this aggregate reputational capital is

expected to have a negative effect on tax aggressiveness.

Average Reputational Capital / The Busyness Effect (AVGMULTIPLE)

The average number of outside board seats per board director (calculated as the total number of outside seats divided by the total number of directors). While holding multiple seats indicates prestige, a high average number of directorships per member introduces the "busyness effect" (Jiraporn, Kim, & Davidson, 2008). Economically, this metric reflects the degree of time constraints and diluted attention faced by individual directors. If the average director is over-committed to too many external boards, their capacity to effectively monitor management diminishes. This weakened oversight provides opportunistic management with the leeway to engage in riskier, aggressive tax planning to maximize short-term cash flows. Therefore, a higher AVGMULTIPLE is theoretically justified to have a positive effect on tax aggressiveness due to the lack of focused monitoring.

Based on this Study, We used the number of directorships held by a director to measure their reputational capital in two measurements. The first measurement is based on the outside number held by the company's board of directors. To illustrate this, if a company has five board members, where two members each have one outside board seat and one member has three outside board seats, the total number of outside board seats is five. From this measurement, we transform the value to natural logarithm (LNMULTIPLE) and average value of outside board seats per board of directors (AVGMULTIPLE). We would expect both measures of dual directorship to effect on tax aggressiveness positively and negatively, respectively.

To detail the variable definition in this study present in Table 2.

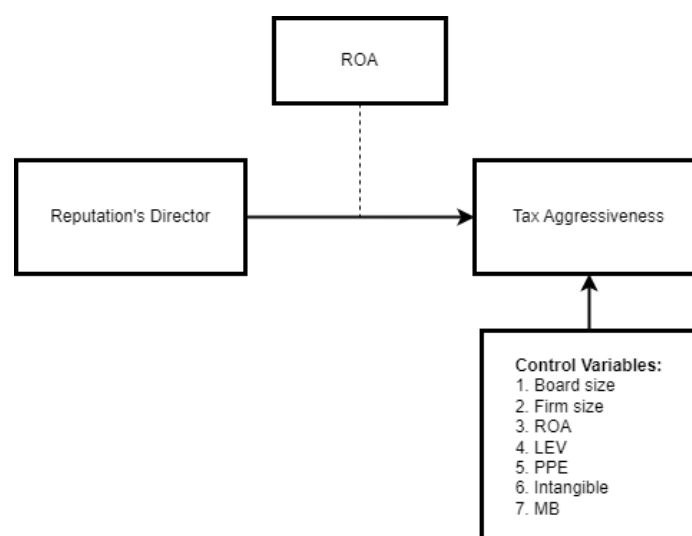


Figure 1. The Research Framework

Control Variables and Variable Definitions

To isolate the effect of directors' reputational capital on tax aggressiveness, this study employs several control variables that have been proven to affect corporate tax planning based on prior literature. These control variables include Board Size (BOARDSIZE), Firm Size (FIRMSIZE), Return on Assets (ROA), Leverage (LEV), Capital Intensity (PPE), Intangible Assets (INTANGIBLE), and Market-to-Book ratio (MB). A comprehensive summary of the operational definitions and measurements for all variables used in this study including control variables such as Board Size, Firm Size, ROA, Leverage, Capital Intensity (PPE), Intangible Assets, and Market-to-Book Ratio is presented in Table 2.

Table 2. Variable Definitions

Variable Type	Acronym	Variable Name	Measurement / Definition
Dependent	ETR	Tax Aggressiveness	$(\sum \text{Cash Taxes Paid over 5 years} / \sum \text{Pre-tax Income over 5 years})$ multiplied by -1. Higher values indicate higher tax aggressiveness.
Independent	LnMULTIPLE	Aggregate Reputation	Natural logarithm of the total number of outside board seats held by the firm's board of directors.
Independent	AVGMULTIPLE	Average Reputation	Total number of outside board seats divided by the total number of directors on the board.
Moderating	ROA	Return on Assets	Net Income divided by Total Assets.
Control	BOARDSIZE	Board Size	The total number of directors serving on the board.
Control	FIRMSIZE	Firm Size	Natural logarithm of Total Assets.
Control	LEV	Leverage	Total Debt divided by Total Assets.
Control	PPE	Capital Intensity	Net Property, Plant, and Equipment divided by Total Assets.
Control	INTANGIBLE	Intangible Assets	Total Intangible Assets divided by Total Assets.
Control	MB	Market-to-Book Ratio	Market value of equity divided by Book value of equity.

Empirical Models

To test the hypotheses, this study utilizes multiple linear regression models on panel data. The models incorporate industry and year fixed effects to control for macroeconomic and sector-specific unobservable characteristics. Standard errors are clustered at the firm level to address potential heteroskedasticity and serial correlation.

The baseline model to test the main effects of reputational capital (H1a and H1b) without the moderating variable is formulated in Equation (1):

$$ETR_{it} = \alpha + \beta_1 \text{LnMULTIPLE}_{it} + \beta_2 \text{AVGMULTIPLE}_{it} + \beta_3 \text{BOARDSIZE}_{it} + \beta_4 \text{FIRMSIZE}_{it} + \beta_5 \text{ROA}_{it} + \beta_6 \text{LEV}_{it} + \beta_7 \text{PPE}_{it} + \beta_8 \text{INTANGIBLE}_{it} + \beta_9 \text{MB}_{it} + \varepsilon_{it}$$

To test the moderating effect of firm profitability (H2), interaction terms between the reputation metrics and ROA are introduced into the model, as formulated in Equation (2):

$$ETR_{it} = \alpha + \beta_1 LnMULTIPLE_{it} + \beta_2 AVGMULTIPLE_{it} + \beta_3 LnMULTIPLE \times ROA_{it} + \beta_4 AVGMULTIPLE \times ROA_{it} + \beta_5 BOARDSIZE_{it} + \beta_6 FIRMSIZE_{it} + \beta_7 ROA_{it} + \beta_8 LEV_{it} + \beta_9 PPE_{it} + \beta_{10} INTANGIBLE_{it} + \beta_{11} MB_{it} + \varepsilon_{it}$$

Where:

α = Intercept

β = Regression coefficients

ε_{it} = Error term for firm i in year t

RESULTS AND DISCUSSION

Table 5 presents the result of multiple regression (column 1) with fixed effect from Industry (column 2) and clustered by firm (column 3). We used the following regression equation model (1) to test our research.

$$ETR_{it} = \alpha_1 + \beta_1 LnMULTIPLE_{it} + \beta_2 AVGMULTIPLE_{it} + \beta_3 BOARDSIZE_{it} + \beta_4 FIRMSIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \beta_7 PPE_{it} + \beta_8 INTANGIBLE_{it} + \beta_9 MB_{it} + \varepsilon_{it} \quad Eq. (1)$$

$$ETR_{it} = \alpha_1 + \beta_1 LnMULTIPLE_{it} + \beta_2 AVGMULTIPLE_{it} + \beta_3 BOARDSIZE_{it} + \beta_4 FIRMSIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \beta_7 PPE_{it} + \beta_8 INTANGIBLE_{it} + \beta_9 MB_{it} + \varepsilon_{it} \quad Eq. (2)$$

$$ETR_{it} = \alpha_1 + \beta_1 LnMULTIPLE_{it} + \beta_2 AVGMULTIPLE_{it} + \beta_3 LnMULTIPLE \times ROA_{it} + \beta_4 AVGMULTIPLE \times ROA_{it} + \beta_5 BOARDSIZE_{it} + \beta_6 FIRMSIZE_{it} + \beta_7 ROA_{it} + \beta_8 LEV_{it} + \beta_9 PPE_{it} + \beta_{10} INTANGIBLE_{it} + \beta_{11} MB_{it} + \varepsilon_{it} \quad Eq. (3)$$

Tax aggressiveness is a difficult concept to measure, but in this paper, it is defined as the ability to reduce tax liability over the long run. The authors use a long-term effective tax rate (ETR) calculated over a five-year period to measure tax aggressiveness. This method allows for smoothing of annual variations in ETRs and embodies the medium- and long-term effects of firm tax strategy. Davis et al (2016) In addition to the long-term ETR, the authors also use a long-term cash ETR (ETR paid) calculated as the sum of the firm's cash tax paid for the period divided by the sum of the firm's pre-tax income for the same period. ETRs are constrained to the 0-1 range and negative ETRs are winsorized so that the smallest observation is equal to 0. Finally, as a higher ETR represents a proxy measure of a lower level of tax aggressiveness, the authors multiply ETRpaid by -1 to obtain increasing measures of tax

aggressiveness for the empirical analysis. Data to compute ETRs is gathered from the Compustat database and supplemented by the firms' published financial statements when required. In summary, the authors measure tax aggressiveness as the ability to reduce tax liability over the long run, using a long-term ETR and a long-term cash ETR.

The result in Table 5 column (1) indicates that companies with reputational capital of directorship has affect (at $p < 0.05$ and $p < 0.1$) negatively (LnMULTIPLE , $\text{coef} = -0.256$) and positively (AVGMULTIPLE , $\text{coef} = 0.117$) on the tax aggressiveness. This implies that companies have a different way to explain the impact of reputational capital. First, the result of the natural logarithm of reputational capital of directorship supports our research, that the reputation capital of directorships is negatively associated with the tax aggressiveness. This measure focuses on the number of outside board seats held by the board of directors of the firm. This metric helps capture the extent of a director's involvement in other organizations as a member of their board of directors. By considering the number of these external board positions, we can gauge the level of experience and influence a director possesses, reflecting their reputation and standing in the corporate community.

ETR_{it}

$$= 0.064 - 0.256 + 0.117 - 0.006 - 0.007 - 0.739 + 0.003 + 0.037 + 0.356 + 0.008 +$$

ε_{it} *Eq. (1)*

$$ETR_{it} = -0.014 - 0.262 + 0.113 - 0.005 - 0.011 - 0.652 + 0.045 + 0.011 + 0.406 \\ - 0.003 + \varepsilon_{it} \quad \text{Eq. (2)}$$

$$ETR_{it} = -0.269 + 0.259 + 0.049 - 0.677 + 0.07 - 0.006 - 0.002 + 0.539 + 0.032 \\ - 0.024 + 0.321 + 0.024 + \varepsilon_{it} \quad \text{Eq. (3)}$$

This result indicates that the higher the average reputation of directorship, the more it will encourage their involvement in better, effective, and efficient resource planning, investment strategies. We assess that this measurement is much more precise in evaluating the company's capital represented by the board of directors. Research by Johnson, Kasipillai, and Koh (2012) suggests that directors with a good reputation are less likely to engage in tax aggressiveness. A director's reputation is often associated with their expertise, integrity, and credibility. Directors with a strong reputation are expected to prioritize ethical behavior and corporate governance practices. They are more likely to adhere to the principles of responsible tax planning, focusing on strategies that comply with legal requirements and align with stakeholders' expectations. Another argument suggests that directors with a strong reputation may possess greater influence, power, and connections, which could enable them to engage in

more aggressive tax strategies. Their reputation may act as a shield, reducing the perceived likelihood of being subject to scrutiny or facing negative consequences. As a result, these directors may exploit their reputational capital to pursue tax-saving opportunities that push the boundaries of legality or ethical acceptability (Johnson, Kasipillai, and Koh, 2012).

Second, the average reputational capital of the board (*AVGMULTIPLE*) has a weakly significant positive effect on tax aggressiveness at the 10% level (coef = 0.113, $p < 0.1$). This result indicates that when the average number of outside directorships per board member increases, the board may suffer from a 'busyness effect.' A diluted focus and over-commitment can marginally weaken their monitoring effectiveness. Consequently, this provides opportunistic management with the leeway to engage in riskier tax planning. However, because the significance is only at the 10% level, this positive association must be interpreted with caution, as the busyness effect may not be uniformly critical across all firms.

Column (2) is testing the hypotheses including the industry and year fixed effect as a robustness test. The results indicate its robustness, as demonstrated in the test presented in column (1).

Table 3. Testing the Hypotheses

<i>Dependent Variable:</i>	(1) <i>ETR</i>	(2) <i>ETR</i>	(3) <i>ETR</i>
LnMULTIPLE	-0.256** (-2.25)	-0.262** (-2.29)	0.259 (1.27)
AVGMULTIPLE	0.117* (1.85)	0.113* (1.77)	0.049 (0.39)
LnMULTIPLExROA			-0.677*** (-3.07)
AVGMULTIPLExROA			0.070 (0.51)
BOARDSIZE	-0.006 (-0.78)	-0.005 (-0.62)	-0.006 (-0.72)
SIZE	-0.007 (-0.76)	-0.011 (-1.14)	-0.002 (-0.17)
ROA	-0.739*** (-4.76)	-0.652*** (-4.10)	0.539*** (2.71)
LEV	0.003 (0.04)	0.045 (0.64)	0.032 (0.46)
PPE	0.037 (0.70)	0.011 (0.17)	-0.024 (-0.39)
INTANGIBLE	0.356 (0.57)	0.406 (0.61)	0.321 (0.49)
MB	0.008 (0.12)	-0.003 (-0.05)	0.024 (0.33)
<i>Industry Fixed Effect</i>	<i>No</i>	<i>Yes</i>	<i>Yes</i>
<i>Year Fixed Effect</i>	<i>No</i>	<i>Yes</i>	<i>Yes</i>
_cons	0.064 (0.25)	-0.014 (-0.05)	-0.269 (-0.99)
r ²	0.015	0.033	0.067
r ² _a	0.012	0.022	0.056
N	2662	2662	2662

<i>Dependent Variable:</i>	(1) <i>ETR</i>	(2) <i>ETR</i>	(3) <i>ETR</i>
t statistics in parentheses			
* p < 0.1, ** p < 0.05, *** p < 0.01			

Table 3 Column (3) tests whether firm profitability (ROA) moderates the relationship between the directors' reputational capital and tax aggressiveness. The results show that the interaction term between aggregate reputation and ROA ($\text{LnMULTIPLE} \times \text{ROA}$) is negative and statistically significant at the 1% level (coef = -0.677, $p < 0.01$).

Recall that the dependent variable is scaled such that higher values indicate higher tax aggressiveness. Because the main effect of aggregate reputation (LnMULTIPLE) on tax aggressiveness is negative, a significantly negative interaction coefficient implies that ROA strengthens this negative relationship. This indicates that in situations where a company has high profitability (high ROA), the negative impact of directors' reputational capital on tax aggressiveness becomes substantially more pronounced.

From an economic perspective, organizations with higher ROA possess greater financial slack and operational resources. They are under less pressure to improve short-term financial performance or meet stakeholders' expectations through high-risk tax avoidance. In such stable environments, highly reputable directors can more easily prioritize sustainable growth, ethical corporate governance, and reputation preservation over short-term tax benefits. The presence of strong financial health reduces the incentive to extract cash through aggressive tax planning, thereby empowering reputable directors to firmly enforce conservative tax policies. Consequently, the combination of strong financial performance and highly reputable directors creates an environment strictly averse to tax aggressiveness. This result confirms our theoretical expectation, meaning that H2 is accepted.

The relationship between director's reputation and tax aggressiveness is context-dependent and influenced by factors such as industry norms, regulatory environment, and company-specific circumstances. Director's motivations and behaviors regarding tax aggressiveness vary across contexts and individual characteristics. In conclusion, this relationship is not straightforward and can vary based on specific circumstances. Some studies suggest a negative correlation between a good reputation and tax aggressiveness, while others find the opposite. Considering multiple factors, including context, industry norms, and regulatory environment, is crucial for a comprehensive understanding of this complex relationship.

As presented in Table 5, the Adjusted R-squared (R^2_{α}) values for the regression models range from 2.2% to 5.6%. While these values appear relatively low, such explanatory power is common and widely accepted in empirical corporate tax literature. Tax aggressiveness is a highly complex construct driven by numerous unobservable factors, including proprietary tax planning structures, managerial risk aversion, and intricate internal tax policies that standard financial variables cannot fully capture (Hanlon & Heitzman, 2010). Therefore, the significance and direction of the independent variables' coefficients are more critical than the overall model fit.

To ensure the reliability and validity of the findings despite the low R-squared, several robustness measures were implemented in this study. First, to mitigate the effect of extreme outliers, the dependent variable (long-term ETR) was constrained and winsorized at the 0 and 1 boundaries. Second, the regression models incorporated Industry and Year Fixed Effects to control for unobservable sector-specific tax norms and macroeconomic shocks across different periods. Third, to address potential endogeneity and heteroskedasticity issues commonly found in panel data, the regression utilized robust standard errors clustered at the firm level.

Nevertheless, this study acknowledges certain model limitations. The reliance on a single proxy for tax aggressiveness (long-term cash ETR) may not capture all dimensions of tax avoidance. Future research is encouraged to employ alternative proxies, such as Book-Tax Differences (BTD) or Current ETR, to provide comparative robustness. Additionally, while firm-level clustering was applied, future studies could incorporate firm fixed-effect models or instrumental variable (IV) approaches to more rigorously control for unobservable firm-invariant characteristics and endogeneity concerns.

Additional Analysis

The Impact of the Covid-19 Pandemic

To provide a deeper understanding of how extraordinary macroeconomic shocks influence corporate governance and tax behavior, we conducted an additional analysis by splitting the full sample of 2,662 observations into two distinct sub-samples: Before the Covid-19 Pandemic and During the Covid-19 Pandemic.

The "Before Covid-19" period encompasses three financial years (2017, 2018, and 2019). This period represents a normal, stable economic environment, yielding a total of 2,002 firm-year observations. The "During Covid-19" period covers two financial years (2020 and 2021), a time when the pandemic severely disrupted the Indonesian economy and triggered various government tax relief interventions. This pandemic period yields a total of 660 firm-

year observations. This temporal partitioning allows us to explicitly observe whether the crisis altered the standard influence of directors' reputational capital on tax planning.

The discrepancy in the number of observations (2,002 pre-pandemic vs. 660 during the pandemic) is a natural consequence of the temporal split, as the pre-crisis period spans three years (2017-2019) while the pandemic period covers only two years (2020-2021). While this unbalanced distribution reflects chronological reality, it is crucial to acknowledge that the significantly smaller sample size during the pandemic reduces the statistical power of the regression model. Therefore, the lack of statistical significance observed during the Covid-19 period could be partially attributed to this reduced power, warranting cautious interpretation when drawing definitive conclusions about governance failure during the crisis. Table 6 presents the results of the split sample regression. The findings indicate that in the pre-pandemic context (Columns 1 and 2), the aggregate reputation of directors (LnMULTIPLE) demonstrates a significant negative influence on tax aggressiveness, acting as an effective governance mechanism. However, this influence is rendered statistically non-significant during the Covid-19 period (Columns 3 and 4).

These results highlight the crucial role of contextual factors in shaping tax behavior. The unpredictability and cascading effects of the Covid-19 pandemic not only endangered the nation but also necessitated emergency government interventions through tax incentives and relief measures. During such an unprecedented crisis, corporate survival and cash preservation became the absolute priority, thereby attenuating the regular governance influence of director reputation on tax aggressiveness.

Table 4. Split Sample Regression

<i>Dependent Variable</i>	<i>Before COVID-19 Pandemics</i>		<i>During COVID-19 Pandemics</i>	
	(1) <i>ETR</i>	(2) <i>ETR</i>	(3) <i>ETR</i>	(4) <i>ETR</i>
LnMULTIPLE	-0.254* (-1.85)	-0.270* (-1.96)	-0.255 (-1.32)	-0.283 (-1.43)
AVGMULTIPLE	0.119 (1.55)	0.130* (1.67)	0.097 (0.91)	0.101 (0.93)
BOARDSIZE	0.004 (0.45)	0.005 (0.58)	-0.032** (-2.37)	-0.036*** (-2.64)
SIZE	-0.017 (-1.60)	-0.023** (-2.05)	0.016 (1.00)	0.025 (1.47)
ROA	-0.879*** (-4.66)	-0.742*** (-3.83)	-0.449* (-1.72)	-0.464* (-1.69)
LEV	-0.012 (-0.15)	0.018 (0.22)	0.105 (0.83)	0.121 (0.92)
PPE	0.026 (0.40)	0.015 (0.19)	0.041 (0.43)	-0.012 (-0.10)
INTANGIBLE	0.472 (0.64)	0.756 (0.95)	-0.102 (-0.09)	-0.525 (-0.45)
MB	0.024 (0.29)	0.025 (0.29)	-0.047 (-0.39)	-0.084 (-0.66)
Industry Fixed	No	Yes	No	Yes

	<i>Before COVID-19 Pandemics</i>		<i>During COVID-19 Pandemics</i>	
<i>Dependent Variable</i>	(1) <i>ETR</i>	(2) <i>ETR</i>	(3) <i>ETR</i>	(4) <i>ETR</i>
Effect				
Year Fixed Effect	No	Yes	No	Yes
_cons	0.265 (0.87)	0.280 (0.86)	-0.329 (-0.72)	-0.686 (-1.40)
r ²	0.017	0.035	0.023	0.045
r ² _a	0.013	0.021	0.010	0.004
N	2002	2002	660	660

t statistics in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 4 presents that before COVID context, the reputation of directors demonstrates a more planned, efficient, and effective influence on tax aggressiveness. This finding aligns with the argument put forth in research 1 (Column 1) regarding the significance of reputational factors. The pronounced emphasis in these results lies in the contextual condition, where the absence of COVID proves to be a significant factor. Consequently, the outcomes indicate that in the presence of COVID, the influence of reputation on tax aggressiveness is rendered non-significant, suggesting a lack of impact. Additionally, it highlights the crucial role of contextual factors in shaping tax behavior that extraordinary events like pandemics can disrupt the regular patterns of tax planning and compliance. In response to such crises, governments may adopt different tax policies and provide incentives aimed at stimulating economic recovery and supporting businesses.

Considering these perspectives, the current findings provide a preliminary understanding of the observed phenomenon. The unpredictability and cascading effects of the COVID-19 pandemic have not only endangered the nation but also necessitated government intervention through tax incentives and relief measures. Consequently, the significance of director reputation in influencing tax aggressiveness becomes attenuated in the presence of such extraordinary circumstances. In conclusion, this empirical analysis sheds light on the intricate relationship between reputation of directors, tax aggressiveness, and contextual factors like the COVID-19 pandemic. It underscores the importance of considering situational conditions in understanding the dynamics of tax behavior and the influence of reputational capital in different contexts. Future studies could delve deeper into exploring the nuanced mechanisms underlying these relationships and investigating the long-term implications for corporate governance and tax planning strategies in the face of unpredictable events.

CONCLUSION

Tax aggressiveness refers to a firm's inclination to employ tax avoidance strategies that may be legally acceptable but ethically questionable. Understanding how directors' reputation affects tax aggressiveness is crucial for regulators, policymakers, and investors, shedding light on corporate ethics and governance effectiveness. This study contributes to the literature on tax behavior in emerging economies, particularly during the challenging times of the Covid-19 pandemic. The findings will provide insights into how directors' reputation shapes tax strategies and can help enhance corporate governance practices in Indonesia and beyond.

Empirically, this study reveals that reputational capital has a nuanced impact based on its measurement. The aggregate reputation of directors (*LnMULTIPLE*) significantly curbs tax aggressiveness, underscoring its role as a robust governance mechanism. Conversely, a high average number of external directorships (*AVGMULTIPLE*) weakly increases tax aggressiveness due to the busyness effect. Furthermore, firm profitability (ROA) serves as a significant moderator; a high ROA strengthens the negative relationship between aggregate reputation and tax aggressiveness. The split-sample analysis further demonstrates that these governance mechanisms were highly effective before the pandemic (2017-2019) but lost their statistical significance during the Covid-19 crisis (2020-2021), highlighting how external economic shocks can temporarily override standard corporate tax behaviors.

Moreover, the study's Indonesia-focused nature limits the generalizability of findings to countries with different governance practices. Despite these limitations, this research addresses gaps in the literature by examining the relationship between directors' reputation and tax aggressiveness, an underexplored area. It also offers insights into firms' behavior in Indonesia during the Covid-19 pandemic, showcasing how external shocks influence tax strategies. The findings can guide policymakers and regulators in Indonesia and similar economies on enhancing corporate governance and directors' roles in curbing tax aggressiveness, contributing valuable insights for academia and practitioners alike.

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