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Director experience, management compensation and tax avoidance

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ABSTRACT

The purpose of this study is to analyze the effect of director experience and management compensation on tax avoidance in Indonesia. This is quantitative research with secondary data sources using cross section data. Purposive sampling was used to obtain 267 observation samples of manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020 tested using multiple linear regression analysis. Dependent variable of tax avoidance proxied by cash effective tax rate is used. The director's experience and management compensation are independent variables in this study. The director's experience is measured by using the dummy variable of the director's experience during study or work abroad. Management compensation is proxied by using the natural logarithm of the annual compensation received by management. Some control variables are also used such as firm size, leverage, firm age, return on assets, growth, market to book ratio, and debt to equity ratio. We found that there is a significant negative relationship between director's experience and management's compensation on tax avoidance. In conclusion, director's experience and management compensation are both important for tax avoidance decisions in companies.

Introduction

The increasing development of tax avoidance literature has attracted the attention of politicians and academics (Huseynov et al., 2017) . Tax avoidance if done successfully can increase cash flow and profit after tax (Austin & Wilson, 2017). Tax avoidance is also considered capable of increasing management compensation and bonuses (Armstrong et al., 2015). However, tax avoidance is a risky action. Companies could be in risk of having to deal with the law enforcement if they are found to have carried out illegal tax avoidance actions (Amri, 2017). Well-known examples would be the case phenomena that have attracted worldwide attention such as the case of Enron (McGill & Outslay, 2004) and Apple company (detikfinance, 2020). In Indonesia, The Ministry of Finance had recently revealed that tax avoidance had increased significantly in the last 5 years, from 2015 to 2019. The 9,496 corporate taxpayers report losses in their financial reports consecutively. These numbers increased twice as much when compared to the numbers in 2012 to 2016. Meanwhile, in reality, these corporate taxpayers who reported losses in their financial reports could still run and even expand their businesses. According to the UN Trade report, 37% to 42% of the Indonesian gross domestic product was reported as affiliate transactions in the letters of notification of Corporate Taxpayer. This indicates the presence of tax avoidance actions through tax base grinding and profit shifting. Sri Mulyani, the Indonesian Acting Minister of Finance, explained that according to the OECD report, the potential for tax base grinding and profit shifting were estimated at $100 billion to $240 billion per year, or equal to 4% to 10% of the global corporate income tax receipts (CNBC, 2021). This gives the impression that tax avoidance in its most aggressive form is a widespread phenomenon in today's business world (Kovermann & Velte, 2019).

Lanis and Richardson (2011) defined tax avoidance as an act of tax aggressiveness, which is an act of intentional reduction in taxable income through tax planning activities. Management actors manipulate earnings with tax planning in order to get high returns. The important roles of taxes in funding public activities, along with tax avoidance in the context of tax aggressiveness, had been a highly discussed topic of research which focused on the information asymmetry between companies and tax authorities. Recently, researchers began to devote greater attention to the motivations, constraints, and consequences of tax avoidance (Halioui et al., 2016).

The relationship between corporate governance and corporate tax avoidance is currently the subject of extensive research (Kovermann & Velte, 2019). For example, research on management compensation on tax avoidance (Phillips, 2003; Desai & Dharmapala, 2006; Minnick & Noga, 2010; Rego & Wilson, 2012; Armstrong et al., 2012; Armstrong et al., 2015; Zulma, 2016; Halioui et al., 2016; Seidman & Stomberg, 2017; Nugroho & Rosidy, 2019; and Idzniah & Bernawati, 2020), research on top management (board of directors and commissioners) on tax

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avoidance (Desai & Dharmapala, 2006; Dyreng et al., 2010; Lanis & Richardson, 2011; Richardson et al., 2016; Sumunar et al., 2019; Wen et al., 2020; and Maisaroh & Setiawan, 2021). The results of these studies still do not provide the same conclusions (Lanis & Richardson, 2011; Halioui et al., 2016; Seidman & Stomberg, 2017; Nugroho & Rosidy, 2019; and Idzniah & Bernawati, 2020). Even so, these studies do have an effect on tax avoidance because tax is one of the most important decisions, which the director is also involved in (Erle, 2008).

Literature evidence shows that foreign experience of the directors could be helpful for the company performance especially in emerging markets (Giannetti et al., 2015). For the purposes of this literature, our notion of director experience adopts the research of Giannetti et al. (2015) and Wen et al. (2020) where director experience is defined as "when a director is a local citizen who works or studies abroad and returns to their home country and serves as a director of the company". Directors with foreign experience have several advantages, such as having overseas connections that could facilitate foreign acquisitions, increase international capital and facilitate the implementation of superior management practices (Bloom & Van Reenen, 2007). In conclusion, the foreign experienced directors are more effective in conducting monitoring not only due to their expertise accumulated abroad but also due to having local ties that can bridge foreign investors and domestic companies. However, in an environment with weak investor protection, the director's experience may be ineffective because it could be regarded by management as a way to be more controlling. In a recent study, director experience can reduce tax avoidance (Wen et al., 2020).

In the context of receiving compensation, the level of management compensation could be related to the operating performance of a company (Maharani & Utami, 2019). Directors who receive appropriate compensation can certainly encourage management to develop strategies when implementing tax avoidance. Previous research has shown that there is a positive relationship between management compensation and tax aggressiveness (Idzniah & Bernawati, 2020; Armstrong et al., 2015; and Minnick & Noga, 2010). This is in contrast to research done by (Armstrong et al., 2012; Halioui et al., 2016; Zulma, 2016; Seidman & Stomberg, 2017; and Nugroho & Rosidy, 2019) which provide evidence that there is a negative relationship between management compensation and tax aggressiveness.

This study, in several ways, is unique from previous research (Armstrong et al., 2012; Halioui et al., 2016; Zulma, 2016; Seidman & Stomberg, 2017; and Nugroho & Rosidy, 2019). In this study, we use cross-sectional data to examine the impact of director experience and management compensation on tax avoidance. We also add control variables such as firm size, leverage, firm age, return on assets, growth, market to book ratio and debt to equity ratio. This study wants to reveal whether, as top management, the directors with experiences abroad have a better impact on tax avoidance compared to the directors with no such experiences. In addition, this study wants to find out whether the management compensation given by the company has a better impact on tax avoidance. This is important because tax is an enormous source of state revenue in Indonesia. The correct research makes the company choose the right directors by considering their professional abilities and experiences. The purpose of this study is to analyze the effect of the director experience and management compensation on tax avoidance. This research is structured as follows. The first section presents the introduction. The second section provides literature review. The third section describes the research method. The fourth section is dedicated to the discussion of the research results. And finally, the fifth part is the conclusion of this research.

Literature Review

Upper Echelon Theory

Directors must perform their duties in good faith and full of responsibility, this includes controlling business, money, and property that are not for their benefit but the company benefit (Kuswiratmo, 2016). A key theory that can support the increased research on top management is the upper echelon theory (Carpenter et al., 2004; and Nielsen, 2010). This theory was initiated by Hambrick and Mason in 1986. Upper echelon theory explains that the achievement of corporate goals such as strategic achievement and performance level is partially predicted by the characteristics of managerial background such as education, career experience, foreign management experience, age, and organizational financial position (Hambrick, 2007). Hambrick and Mason (1986) also documented that top management, in this case, directors who have received formal management education abroad, are better able to handle the complexities of management challenges than those who have not received substantial education. It proved that experience is important for the company. Some previous literatures explained that the past experiences of directors and managers significantly influence company policies and results (Giannetti et al., 2015; Yuan & Wen, 2018).

Influence of Director Experience on Tax Avoidance

Research evidence shows that the board of directors is responsible for the top decision control in the corporation (Fama; & Jensen, 1983)Fama and Jensen (1983)and the corporate strategy formulation. Directors also actively control and run the company (Jiang & Kim, 2015). Literatures proved that foreign-experienced managers and

directors could improve company performance, especially in the developing country markets (Giannetti et al., 2015; and Yuan & Wen, 2018). Companies in developing country markets are generally perceived to have weak governance and poor practices, compared to those in developed countries (Syverson, 2011). This was also proved by Giannetti et al. (2015) in his research with a large sample in China where companies take advantage of the government policy to attract talented emigrants who migrated abroad to collect their knowledge and skills. The experience they accumulated allowed their talents to develop, and if these emigrants decide to return to their country and join the company's board, the company's performance will increase. Yuan & Wen (2018) shows the same result where managerial foreign experience is important for company innovation. In short, one's overseas experience is indeed important for the company. In terms of taxation, the taxation aspect is important for the company. Therefore, tax is an important decision for companies in which directors are also involved. Recent literature by Wen et al. (2020) shows that directors with overseas experience have a significant negative relationship to tax avoidance. This shows that this director can help tax aggressiveness. Based on these findings, it is possible that the director's experience is negatively related to tax avoidance. The conclusion is still unclear whether returning directors can increase or decrease tax avoidance in their companies. This becomes an empirical question for us to investigate. Hence, our hypotheses are as follows:
H_1: Director experience has a negative effect on tax avoidance.

Influence of Management Compensation on Tax Avoidance

Compensation is a material or non-material award given to management with the aim of giving motivation in achieving company goals (Budiadnyani, 2020). Management compensation can be in the form of salaries, benefits, bonuses or all three of these combinations. The purpose of compensation is to align the interests of shareholders and the interests of business managers (Amri, 2017). In addition, management compensation can encourage tax avoidance. In agency theory, agents or managers have opportunistic properties that cause agency problems to arise, such as information asymmetry, rationality and fraud (Panda & Leepsa, 2017). Studies on management compensation for tax avoidance still spark debates of pros and cons. Several studies have shown positive results between management compensation and tax avoidance (Armstrong et al., 2015; Idzniah & Bernawati, 2020; Minnick & Noga, 2010), which is in contrast to research by (Armstrong et al., 2012; Halioui et al., 2016; Zulma, 2016; Seidman & Stomberg, 2017; Nugroho & Rosidy, 2019) which showed the opposite results.

Rego & Wilson (2012) assessed the effect of stock option convexity on CEO tax aggressiveness. The findings showed that CEO compensation has a significant effect on corporate tax decisions. Jealousy over stock options encourages managers to engage in tax aggressiveness. Idzniah & Bernawati (2020) found that there is a positive relationship between executive compensation and tax avoidance in Indonesia. The negative effect of executive compensation is that the receipt of large enough compensation will encourage executives to commit fraud and strengthen tax avoidance.

Conversely, the research by Armstrong et al.(2012) on incentives for tax planning showed that executive compensation was negatively related to tax avoidance. Such finding is in line with the research by Nugroho & Rosidy (2019) on independent commissioners and compensation for tax aggressiveness with 236 observations from 59 companies listed on the IDX in 2014-2017. The results showed that executive compensation had a negative effect on tax aggressiveness. The greater the compensation received, the less likely the company is to carry out tax aggressiveness activities. If a company engages in aggressive tax avoidance, it will increase the risk for the company to break the law. Therefore, it is likely that the company will provide some compensation to management so that they would not be opportunistic in tax avoidance. Based on this description, hypothesis 2 that can be taken in this study is:
H_2: Management compensation has a negative effect on tax avoidance.

Research Method

This research is quantitative research with secondary data sources using cross section data. The sample used for this research is manufacturing sector companies in 2018-2020 which are listed on Indonesia Stock Exchange through the www.idx.co.id page. The reason manufacturing companies are chosen is because this sector is the most dominant in number than other sectors. Our sampling method used purposive sampling. We selected a sample with the following criteria: 1) We excluded observations of firms that had negative income before tax; 2) We removed observations that had an abnormal effective tax rate like the previous literature (Chen et al. 2010; Bimo et al., 2019; Wen et al., 2020); and 3) We exclude data with incomplete information that cannot be used as research material. Thus, the final sample in this study amounted to 267 samples.

We also summarized the number and percentage of director experiences. The results obtained varied widely in various industries as shown in Table 1. The top three positions include the cable sub-sector, the household sub-sector and the cigarette sub-sector (100%). Meanwhile, the three directors with the lowest experience are the wood and processing sub-sector, the footwear sub-sector (0%) and the machinery and heavy equipment sub-sector (33%).

Table 1. Sample distribution by industry

Industrial sector	N	For_Dum=1	For_Dum=0	Percentage
Basic and chemical industry sector				
Cement subsector	13	9	4	69%
Wood sub-sector and its processing	2	0	2	0%
Porcelain and glass ceramics subsector	10	5	5	50%
Chemical subsector	21	14	7	66%
Metals and similar subsector	19	12	7	63%
Animal feed subsector	10	7	3	70%
Plastics and packaging subsector	23	18	5	78%
Pulp and paper subsector	21	19	2	90%
Miscellaneous industry sector				
Footwear subsector	2	0	2	0%
Electronics subsector	4	3	0	75%
Cable subsector	13	13	0	100%
Machinery and heavy equipment subsector	6	2	4	33%
Automotive and components subsector	14	13	1	93%
Textile and garment subsector	21	11	10	52%
Consumer goods industry sector				
Pharmacy subsector	22	16	6	73%
Food and beverage industry subsector	45	36	9	80%
Cosmetics and household goods subsector	11	11	0	100%
Home appliances subsector	5	5	0	100%
Cigarette subsector	5	5	0	100%
Total	267	199	68	

Variable Measurement

In this study, tax avoidance (TA) as the dependent variable was measured by using the cash effective tax rate (CETR) proxy as to be consistent with the previous literature (Chen et al. 2010; Bimo et al., 2019; Wen et al., 2020). The CETR measurement focused on tax payments in cash and could describethe due tax book differences due to temporary and permanent differences. CETR is measured by tax payments in cash divided by profit before tax.

Table 2. Operationalization of variables

Variable	Measurement
TA	Tax payments in cash divided by profit before tax in year t.
DE	Dummy variable for director experience where the value is 1 if directors have experience studying/working abroad in year t, and the value is 0 otherwise.
MC	Natural logarithm of the annual compensation received by management in year t.
SIZE	Natural logarithm of total assets in year t.
LEV	Total liabilities divided by total assets x 100 in year t.
AGE	Research year – the founding year of the company according to the deed of incorporation.
ROA	Net income divided by total assets x 100 in year t.
GR	Growth ratio ((present-past) / past) x 100
MBV	Total market value divided by book value in year t
DER	Total debt divided by total equity x 100 in year t.

The independent variable of director's experience (DE) was measured by a dummy variable. We give a score of one if the company has at least one director with foreign experience in year t and, conversely, we give zero value if the director has no foreign experience. We collect directors' experience information from their resumes that are publicly disclosed in the company's annual reports. Following Giannetti et al. (2015) and Wen et al. (2020), director experience (DE) could be defined as when a director is a local citizen who previously worked or studied abroad and then returned to their home country and served as a director of the company. To ensure data accuracy, we also cross-check with other additional data such as news and internet. Another independent variable is management compensation (MC). Management compensation is measured by the natural logarithm of the annual compensation received by management. Annual compensation is defined as the amount of salary, bonuses, incentive receipts, additional income according to previous literatures (Armstrong et al., 2012; Armstrong et al., 2015; Halioui et al., 2016; Nugroho & Rosidy, 2019; Idzniah & Bernawati, 2020).Control variables such as company

characteristics were also added in this study including SIZE (company size), LEV (leverage), AGE (company age), ROA (return on assets), GR (Growth), MBV (market to book value ratio) and DER (debt to equity ratio).The operationalization of research variables can be seen in Table 2.

Regression Model

The model used to test the hypothesis in this study is the multiple linear regression model to examine the direct effect of director experience and management compensation on tax avoidance. We will use several diagnostic tests such as normality, multicollinearity, autocorrelation, and heteroscedasticity to ensure that they are free from classical assumptions between variables. The regression model equation is as follows:

$$TA_{it} = a + \beta_1 DE_{it} + \beta_2 MC_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 AGE_{it} + \beta_6 ROA_{it} + \beta_7 GR_{it} + \beta_8 MBV_{it} + \beta_9 DER_{it} + e$$

Information:

TA	= Tax avoidance	LEV	= Leverage	MBV	= Market to book ratio
DE	= Director experience	AGE	= Company age	DER	= Debt to equity ratio
MC	= Management compensate	ROA	= Return on assets	e	= Error
SIZE	= Company size	GR	= Growth	β	= Beta

Results and Discussion

Descriptive Statistics and Correlation Test

Table 3 presents descriptive statistics of all the variables we studied. Descriptive statistics include minimum, maximum, mean and standard deviation. To obtain robust results, we excluded outlier data which resulted in 267 firm-years obtained. The TA variable shows that the average natural logarithm value is 0.09 with a standard deviation of 19%, meaning that, in general, companies are involved in tax avoidance activities because their effective rates are lower than the law. The current tax rate in Indonesia is 22%. The DE variable reports the director's foreign experience. The DE results showed that an average value of 75% of the observations have at least one director with foreign experience. The MC variable shows the natural logarithm mean of 2309.74 and standard deviation of 137.20. Some sample sizes of control variables such as LEV of 0.42, AGE of 39.35 and GR of 9.82. Overall, these figures are consistent with previous studies (Wen et.al., 2020).

Table 3. Descriptive statistics

	TA	DE	MC	SIZE	LEV	AGE	ROA	GR	MBV	DER
Min	0,09	0	1928	24110	0,07	4	-0,068	-38,26	-0,224	-4,94
Max	0,977	1	2675	32474	1,25	89	0,257	112,6	11,54	20,1
Mean	0,31	0,75	2.309,74	28.383,80	0,42	39,35	0,06	9,82	1,89	1,00
Median	0,277	1	2312	28235	0,41	42	0,048	5,75	1,235	0,71
Std. Dev	0,19	0,44	137,20	1.545,84	0,19	15,82	0,05	20,24	1,83	1,49

Table 4. Correlation test

Variable	1	2	3	4	5	6	7	8	9	10
(1) TA	1									
(2) DE	-0,311***	1								
	0,093									
(2) MC	-0,063***	-0,227	1							
	0,043	0,155								
(3) SIZE	-0,066	0,155	-0,0177	1						
	-0,124	-0,06	-0,062							
(4) LEV	-0,059	0,064***	-0,123	0,078***	1					
	0,226	0,119	-0,05	-0,02						
(5) AGE	-0,005	0,070***	-0,03	0,240***	0,120***	1				
	0,12	0,12	-0,139	0,03	0,053					
(6) ROA	-0,111	0,251***	-0,198	0,705***	0,120***	0,226***	1			
	0,078	0,24	0,705	-0,126	-0,05	-0,017				
(7) GR	-0,059	0,092***	0,088***	-0,126	-0,139	-0,119	-0,124	1		
	-0,017	-0,123	-0,034	-0,198	0,088	0,081	0,153			
(8) MBV	0,026***	0,164***	0,081***	-0,054	0,030***	-0,05	-0,06	0,043***	1	
	-0,227	0,155	0,064	0,07	0,251	0,092	0,164	-0,039		
(9) DER	-0,114	-0,039	0,153***	-0,017	0,053***	-0,02	-0,062	0,255***	0,093***	1
	-0,311	-0,063	-0,066	-0,059	-0,005	-0,111	-0,059	-0,026	-0,114	

*** Significant at p<0,10

In Table 4, we report the overall correlation between the independent and control variables on the dependent variable. The correlation results showed that the director's experience and management compensation as independent variables have a negative relationship with tax avoidance. The correlation between the control variables is also relatively low. Moreover, the classical assumption tests have met the criteria for being free from the classical assumptions. For example, to test the multicollinearity test, we calculated the variance of the inflation factor (VIF) for all the independent variables. The largest value is 6.2, which is still below the multiple regression models cut off rule of 10. Therefore, we could conclude that this study is free from classical assumptions.

Empirical Research Findings

The results of the multiple regression are presented in Table 5 which can be explained as follows: DE is an independent variable, which is the director's experience. The DE value is -1.523. An increase in DE by one-line point will reduce the value of tax avoidance by -1.523 basis points, assuming other factors affecting tax avoidance are held constant. MC is a management compensation variable with a proxy of the natural logarithm of management compensation. The MC value is -0.1755. An increase in MC by one-line point will reduce the value of tax avoidance by -0.1755 basis points, assuming other factors affecting tax avoidance are held constant.

Table 5. Multiple linear regression test

Variable	Coefficient	t-Statistic	Prob.
C	-0,0468	-1,1372	0,2565
DE	-1,5231	-5,6180	0,000*
MC	-0,1755	-2,5134	0,0126*
SIZE	0,0080	0,5922	0,5542
LEV	-0,0246	-0,8614	0,3898
AGE	0,0005	0,5062	0,6131
ROA	-0,0153	-1,0709	0,2852
GR	-6,3505	-0,1460	0,884
MBV	0,0106	1,8337	0,0679
DER	-0,0152	-1,9246	0,0554
Adjusted r Squared	0,1158		
F Statistic	4,8741		
Prob.	0,000005		

Source: The results of data processing using Eviews 10.

Based on the results of the multiple regression test that we report in Table 5; the adjusted R square value is 0.1158 or 11.5%. The value 11.5% means that the independent variable in this study, namely the directors experience and management compensation can explain the dependent variable, namely tax avoidance, by11.5%. Meanwhile, the remaining 88.5% can be explained by other variables not included in this study.

The F-statistics value in Table 5 shows that there is a simultaneous effect of the director's experience and compensation management on tax avoidance. If the F-Statistics value > 0.05 then H_0 is accepted. F-Statistic value in this study is 4.874 > 0.05, thus H_0 is accepted. Therefore, it can be concluded that the directors experience and management compensation have an effect on tax avoidance.

The Effect of Director's Experience on Tax Avoidance

The results and hypothesis testing of this research could be seen in Table 5. Hypothesis 1 in this study states that the director's experience has a negative effect on tax avoidance. The test results show that hypothesis 1 accepted. We provided evidence that there is a negative relationship between the director's experience and tax avoidance. The probability value is 0.000 (t=-5.618) at the 5% significance level. This provides evidence that director experience can lower taxes. With the experience of those studying or working in developed countries, returning directors can observe the costs and benefits of implementing a tax strategy in that country and ultimately be accountable to shareholders, and adhere to the concept of maximizing shareholders' wealth. Returning directors can influence their companies to be more involved in tax avoidance because of the influence of the outside world where one of the tax avoidance strategies is associated with reputation problems. The director's experience is expected to help companies to reduce aggressive tax avoidance activities. This means that the director's better foreign experience can limit the company's tax aggressiveness. These results are consistent with previous research by Wen et al., (2020) which concluded that experienced foreign directors can limit tax aggressiveness in developing countries.

The Effect of Management Compensation on Tax Avoidance

Hypothesis 2 in this study states that management compensation has a negative effect on tax avoidance. The test results show that hypothesis 2 is accepted as shown in Table 5. This means that the management compensation variable has a negative effect on tax avoidance. The probability value is 0.0126 (t=-2.513) at the 5% significance level. This means that a higher management compensation will cause the tax avoidance actions to decrease. This shows that management tends to realize the risks that arise when carrying out aggressive tax avoidance activities. This is in line with research (Armstrong et al., 2012; Halioui et al., 2016; Zulma, 2016; Seidman & Stomberg, 2017 and Nugroho & Rosidy, 2019) which concluded that compensation has a negative effect on tax avoidance. The greater the compensation received, the less likely the company is to carry out tax aggressiveness activities. When a company engages in aggressive tax avoidance, it will increase the risk for the company to break the law.

Overall, this study provided evidence that companies have complied with applicable tax regulations and tax laws in Indonesia. The director's experience and compensation can prevent and detect errors made by management, whether intentional or unintentional. However, the company characteristics as control variable has no effect on tax-avoidance.

Robustness Test

In this study, we acknowledge potential endogeneity concerns. The research sample was from the year 2018-2020, where 2020 was the year of the Covid-19 pandemic. For that, we carried out a robustness test in purpose to address this issue. We added a new control variable, namely pandemic variable (PD). We measured the pandemic variable with a dummy variable, where we assign a value of 1 for 2020, and a value of 0 for the research years 2018 and 2019. We performed a robustness test to address this endogeneity issue, and the results of our study are presented in Table 6.

Table 6. Multiple linear regression test

Variabel	Coefficient	t-Statistic	Prob.
C	-0,072	-1,582	0,115
DE	-1,53	-5,651	0,000
MC	-0,184	-2,622	0,009
SIZE	0,007	0,504	0,615
LEV	-0,028	-0,99	0,323
AGE	0,001	0,669	0,504
ROA	-0,014	-0,958	0,339
GR	-6,35	-0,225	0,882
MBV	0,011	1,863	0,064
DER	-0,015	-1,928	0,055
PD	0,084	1,292	0,197
Adjusted r Squared	0,118		
F Statistic	4,565		
Prob.	0,000		

Source: The results of data processing using Eviews 10.

In Table 6, the t-statistic values of DE and MC variables are -5.651 and -2.622, respectively, with probability values of 0.000 and 0.009. These results provide conclusion that the independent variables of director experience and management compensation have a negative effect on tax avoidance. Control variables such as SIZE, LEV, AGE, ROA, GR, MBV, DER, PD do not affect tax avoidance. In conclusion, the results of the research using the robustness test yielded the same conclusions as the results before the presence of endogeneity. That is, the pandemic variable does not affect the results of the study.

Conclusions

This study aims to empirically examine the effect of director experience and management compensation on tax avoidance. We found that there is a significant negative relationship between directors' experience and management compensation on tax avoidance. This shows that the directors and management can limit tax avoidance in the company. The work experience and education of the director while abroad are able to reduce tax avoidance in the company. Similarly, a greater compensation received could cause management to less likely take part in tax avoidance actions. This means that compensation can prevent management from acting opportunistically. In conclusion, director experience and management compensation are both important for tax avoidance decisions in companies.

This study provides several contributions, firstly, it could add to the topic of research on director heterogeneity and management compensation as one of the factors that influence tax avoidance. Secondly, it provides empirical evidence on the effect of director experience and management compensation on tax avoidance. From the government's point of view, it contributes to the realization that director's experience and management compensation can effectively help smooth legislation and have an impact on maximum tax revenue. Some of the limitations of this study are, firstly, due to the limited information disclosed publicly, we could not confirm whether this director experience includes tax expertise or any experience from attending taxation course. In future research, it is hoped that the director experience can be assessed from the point of view of their accounting and taxation expertise. Secondly, the independent variables in this research model only consist of two variables, so further research is expected to increase the number of independent variables in order to better explain the factors behind tax avoidance in companies.

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