

The Correlation of Corporate Executives' Characteristics to Tax Avoidance

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Abstract: In order to explore the influence of different background characteristics of corporate executives on corporate tax avoidance, the correlation between executive characteristics and tax avoidance behavior is analyzed through theoretical research and empirical analysis. On the basis of understanding executive theory, executive echelon theory and effective rational hypothesis theory, the influence mechanism of executive characteristics on corporate tax avoidance is discussed in this research by establishing a regression model of tax avoidance degree and conducting empirical statistical analysis. Under the analysis of five personal characteristics of senior executives such as age, gender, educational background, length of tenure, financial background, as well as corporate financial data such as effective tax rate, tax avoidance degree, company size and accounting period expenses, the correlation between different characteristics of corporate executives represented by chairman and general manager and tax avoidance behaviors is obtained. The results show that executive characteristics can affect the decision-making choice of corporate tax avoidance. Age and length of employment are negatively correlated with the degree of corporate tax avoidance, financial background is positively correlated with it, and men are more likely to make tax avoidance decisions than women. Therefore, executive characteristics are correlated with the internal influence mechanism of corporate tax avoidance.

1. Introduction

In the 1980s, mason from the United States proposed the high-level echelon theory, which believed that the operating efficiency and long-term strategic choice of enterprises would be influenced by the background characteristics of enterprise executives [1]. Executive characteristics include psychological characteristics such as executive cognition and values, as well as observable external characteristics, such as gender, educational background, executive tenure, age, etc. According to the high-level echelon theory, the different cognitive model, mental level, value orientation and other personal characteristics of an enterprise executive will affect his behavioral preference, thus affecting the decision-making behavior of the enterprise [2]. In the middle of the last century, the hypothesis of bounded rationality was put forward, which holds that perfect rationality is an optimal decision-making ideal model. However, due to the limited information received by human beings and the subjective influence of individual cognitive psychology, it is impossible to make a completely optimal decision-making.

Differences in personal background characteristics of senior executives will lead to different tax avoidance decision-making behaviors and results. Under bounded rationality, senior executives absorb and integrate relevant effective information, which has an impact on the attitude and behavior of enterprises in tax avoidance [3]. Combining the background characteristics of senior executives with corporate tax avoidance, the influence mechanism of senior executives' characteristics on corporate tax avoidance is analyzed. The characteristics of senior executives from the perspectives of age, gender, educational background, tenure and financial background are explored in this research, and the personal background information of the chairman and general manager as well as the financial information of the company are selected. Through the empirical analysis of the samples, the influence of the change of the chief executive chairman and general

manager on the decision-making behavior of corporate tax avoidance is obtained.

2. Research method

2.1 Characteristics of enterprise executives

As the decision-maker and executor of an enterprise, senior executives are directly responsible for the financial performance and operation effect of the enterprise [4]. Scholars generally divide the group of corporate executives into chairman and general manager, because chairman and general manager have full decision-making power, and different senior executives have different leadership styles and management styles. The chairman and general manager's own cognition and values will be directly reflected in the development direction of the enterprise, so the chairman and general manager are likely to become the decision-maker and executor of corporate tax avoidance. In the 1980s, mason from the United States proposed the high-level echelon theory, which believed that the operating efficiency and long-term strategic choice of enterprises would be influenced by the background characteristics of enterprise executives [5]. Executive characteristics include psychological characteristics such as executive's cognition and values, as well as observable external characteristics: executive's age, executive's gender, executive's education background, executive's tenure, financial knowledge background, etc. Figure 1 is the theoretical model of enterprise high-level echelon.

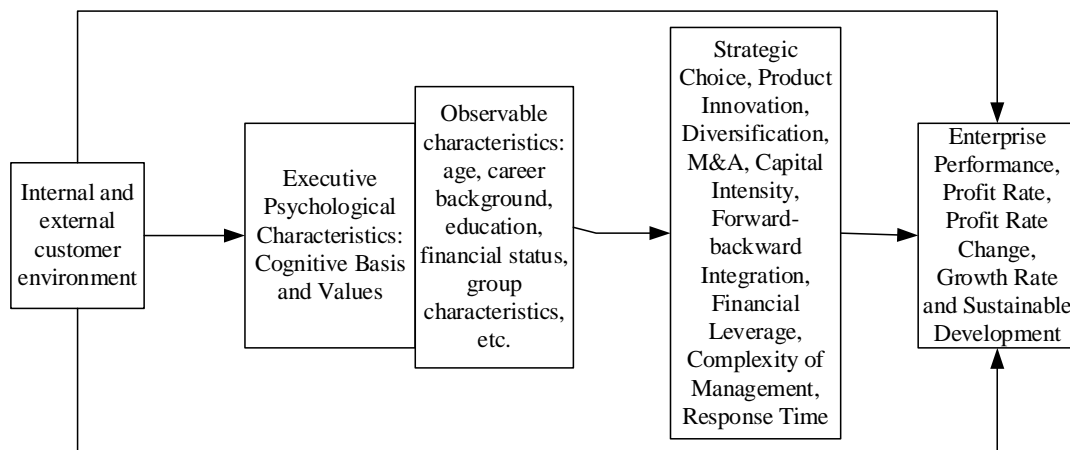


Figure 1. The theoretical model of enterprise high-level echelon

According to the high-level echelon theory, an enterprise's financial performance and strategic choice are the reflection of its own human resources, and the different cognitive model, mental level, value orientation and other personal characteristics of its senior management group members will affect their behavioral preference, thus affecting the decision-making behavior of the enterprise. The external background characteristics of corporate executives include many aspects: gender, age, education, tenure, financial knowledge, political background and so on. Figure 2 below shows the characteristics of executives. On this basis, this research studies the influence of different executive characteristics on the choice of corporate tax avoidance.

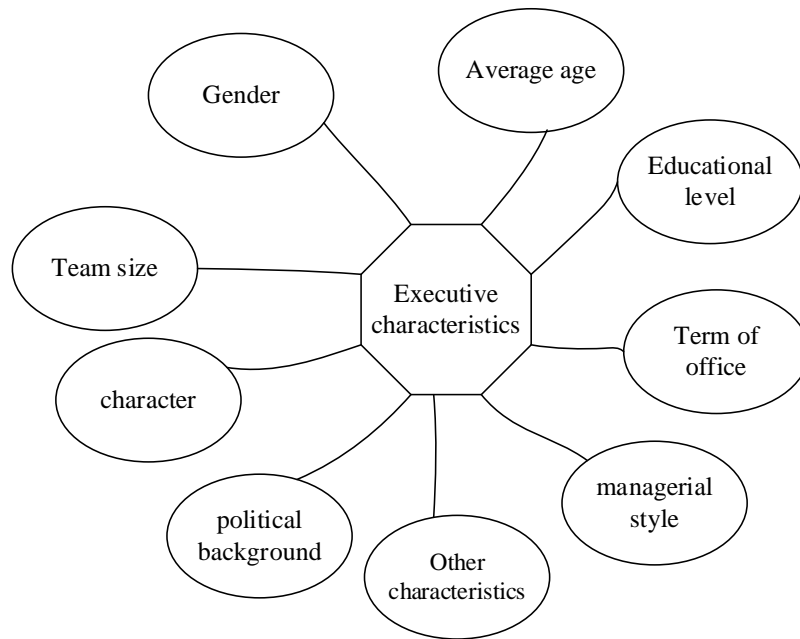


Figure 2. Characteristics of enterprise executives

Bounded rationality assumes that perfect rationality is an optimal decision-making ideal mode. However, due to the limited information received by human beings and the subjective influence of individual cognitive psychology on information, the so-called optimal and optimal decision-making can't be made [6]. Bounded rationality hypothesis has three premises. First, senior executives cannot get all the information related to the background and situation before the management decision. Second, among all the information that can be perceived, only some useful information for decision-making can be obtained due to the incompleteness of information and the limitation of the executive's own cognitive level and value orientation. Third, in the part of effective information obtained, senior executives cannot fully rationally process this part of information and apply it in the management decisions of enterprises. Figure 3 below shows the influence process of bounded rationality of enterprise executives on decision-making behavior of enterprises [7]. Executives have subjective limitations, so it is difficult to ensure the rationality of decision-making behavior. Therefore, executives need to absorb and integrate relevant effective information and make relatively better decisions under bounded rationality. Driven by various interests, corporate executives may easily arrange tax avoidance and seek improper benefits in enterprise management due to their own cognitive and mental limitations. Under the assumption of bounded rationality, subjective factors such as personal values and cognitive ability of senior executives are likely to have a certain impact on corporate tax avoidance. Based on the theory of executive echelon and the hypothesis of bounded rationality, this research studies the different influences of the background characteristics of senior executives on the decision-making behavior of enterprises.

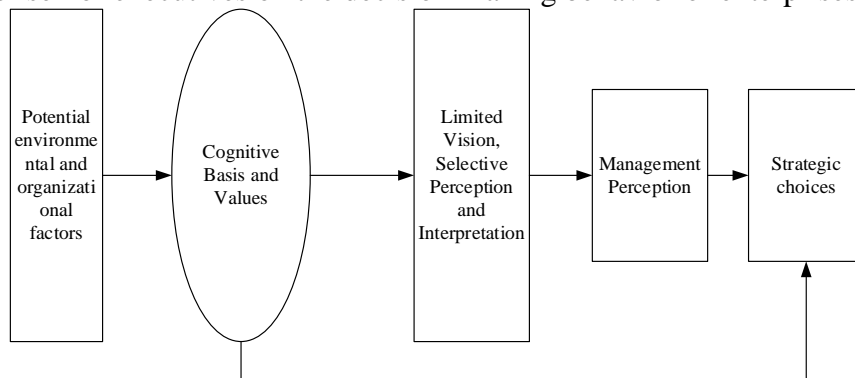


Figure 3. The influence of the bounded rationality of executives on the decision-making behavior of enterprises

Therefore, as one of the important factors affecting the decision-making behavior of enterprises, the background characteristics of senior executives are analyzed on the basis of various core background characteristics to study their influence mechanism on the decision-making behavior of enterprises and explore the correlation between the characteristics of senior executives and the tax avoidance behaviors of enterprises.

2.2 The influence of executive characteristics on corporate tax avoidance

Tax avoidance is also diversified and complex in various aspects such as commodity trading, intangible assets development and investment, leasing and transfer. In order to participate in reasonable tax avoidance activities, senior executives must have a global awareness, integrate all available materials, make overall planning and design tax avoidance behaviors in various business operations of enterprises [8]. Tax avoidance is not a decision made by a single department, but involves all aspects of enterprise operation. Only with appropriate management authority and decision-making power, senior executives can arrange tax avoidance activities in enterprise operation. Therefore, they are more likely to be influenced by the wishes of the chairman and general manager of the enterprise.

As the representative of the shareholders of the enterprise, the chairman has the highest decision-making power and is the final decision maker of the whole tax avoidance. The goal is to reduce the tax burden of the enterprise through tax avoidance activities and seek reasonable tax benefits. The general manager and the chairman are interrelated and dependent, and the general manager is responsible for the implementation of tax avoidance activities as instructed by the chairman, and controls the implementation progress of tax avoidance [9]. Of course, the general manager may also compromise the interests of the enterprise and maximize personal desire. Tax avoidance is designed in an aggressive way to reduce the short-term tax payment cost of enterprises and gain the reuse and trust of the chairman and the entrusting party. Compared with the chairman, the general manager has better motivation and ability to be the operator of corporate tax avoidance, and supervise the implementation of tax avoidance activities to make tax avoidance effective. Table1 below is the hypothesis of the influence of the characteristics of corporate executives on corporate tax avoidance.

Table 1 The influence of executive characteristics on corporate tax avoidance

Characteristics of senior executives	Tests hypothesis of corporate tax avoidance
Age of executives	Negative correlation (older, lower tax avoidance)
Gender of executives	Male executives are more likely than female executives to make tax avoidance decisions
Tenure of executives	Negative correlation (longer tenure, lower tax avoidance)
Education background of executives	Positive correlation (higher education, higher tax avoidance)
Financial background of executives	Positive correlation (financial background, higher tax avoidance)
Position of executives	The characteristics of the general manager have more influence on corporate tax avoidance than the chairman

Chief executives are more likely to be executives than chairmen to be aggressive tax avoiders, whose tax avoidance activities have significantly reduced corporate tax bills. Exploring the motivation and influence mechanism of corporate tax avoidance can help us more clearly define the ways of corporate tax avoidance, and the influencing factors of corporate tax avoidance gradually change to the internal management of enterprises [10]. The correlation between the characteristics of corporate executives and tax avoidance behavior is confirmed by exploring the effective factors of the former to the latter.

2.3 An empirical analysis of tax avoidance behavior by executive characteristics

Corporate tax avoidance will harm the interests of corporate shareholders and external investors, as well as the dissemination and long-term development of corporate cultural values [11]. As the

decision-maker and executor of corporate tax avoidance activities, it is of certain reference value for effective prevention of corporate tax avoidance activities to deeply analyze the motivation of senior executives to conduct tax avoidance activities and the differences in the degree of corporate tax avoidance under different characteristics of senior executives' backgrounds from the perspective of their personality characteristics [12]. Based on the high-level echelon theory, the possibility of the influence of executive characteristics on corporate tax avoidance is established, and the influence mechanism of executive characteristics on corporate tax avoidance is analyzed by combining executive background characteristics with corporate tax avoidance behaviors [13]. This research analyzes the characteristics of senior executives from the perspectives of age, gender, educational background, tenure and financial background. Analyze the effective tax rate, tax avoidance degree, company size, profitability, intangible assets, fixed assets and accounting period expenses. The characteristics of executives will influence the decision-making of corporate tax avoidance behavior.

This research takes XXX listed company as the object to select the personal background information of the chairman and general manager as well as the financial information of the enterprise. Empirical analysis is conducted through samples. The regression model of equations (1) and (2) below is studied. Control the year effect of time effect on tax avoidance, control the company effect of corporate difference on tax avoidance, and then obtain the influence of executive characteristics on tax avoidance.

$$TS_{ct} = \alpha_0 + \beta_1 Control_{ct} + \beta_2 Year_{ct} + \beta_3 Firm_{ct} + \beta_4 EDU_{ct} + \beta_5 AGE_{ct} + \beta_6 FIN_{ct} + \beta_7 SEX_{ct} + \beta_8 REN_{ct} + \varepsilon \quad (1)$$

In the regression model of equation (1) above, TS_{ct} represents the part of accounting tax difference explained by tax avoidance, the small mark c represents the company and t represents the year. $Control_{ct}$ represents other financial factors related to corporate tax avoidance. $Year_{ct}$ represents the year effect associated with corporate tax avoidance. $Firm_{ct}$ represents the company effect associated with corporate tax avoidance. EDU represents the education factor. AGE means AGE factor. FIN represents financial background.

According to equation (1), the tax law differences and accounting standards differences in accounting tax differences are controlled, and the model of equation (2) below is obtained to measure the degree of tax avoidance.

$$BT_{ct} = \alpha_0 + \beta_1 MA_{ct} + \beta_2 FA_{ct} + \beta_3 OP_{ct} + \beta_4 TA_{ct} + \beta_5 INT_{ct} + \beta_6 FIX_{ct} + \beta_7 REV_{ct} + \beta_8 STO_{ct} + \varepsilon_{ct} \quad (2)$$

In the above regression model of equation (2), BT_{ct} represents the difference between taxable profit and accounting profit. MA_{ct} represents administrative expenses. FA_{ct} means financial expense. OP_{ct} represents sales expenses. TA_{ct} stands for earnings management. INT_{ct} represents intangible assets. FIX_{ct} represents fixed assets. REV_{ct} represents the main business income. STO_{ct} stands for inventory.

3. Result discussion

Eviews software is used to calculate the linear regression results of the formula model, and then the regression results of BT_{ct} of corporate accounting tax difference are obtained. The sample results are obtained by TS and BT models, and the tax avoidance degree of the company is effectively measured by TS values. Descriptive statistical results are obtained. The maximum value of TS in the sample is 0.816, the minimum value is -0.2193, and the average value is 0.015.

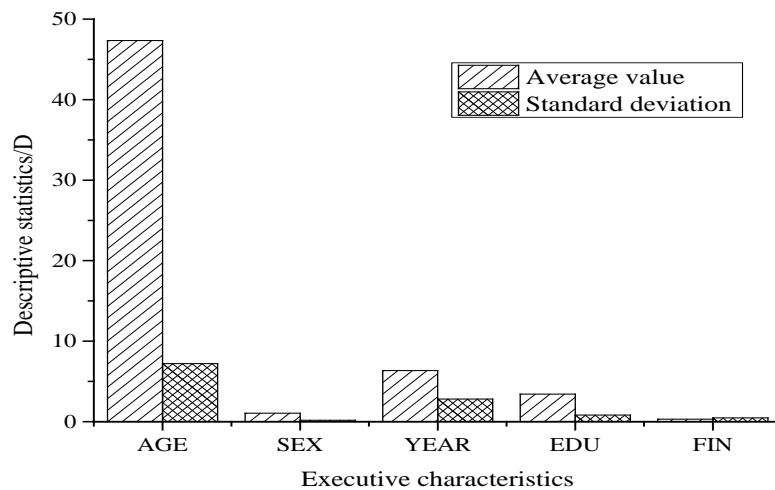


Figure 4. Descriptive statistics of executive characteristics

As shown in Figure 4, five characteristics of senior executives, including age, gender, educational background, tenure, and financial background, are used as variables for analysis, and descriptive statistical values are obtained. Among the gender factors, male executives account for more than 95%. The average age of a senior executive is 48. The average tenure factor for executives is six years. Among the education factors, the bachelor degree of senior executive accounts for about 50%. Accounting and economic titles account for about 30% of the background factors of financial knowledge. The different types of corporate executives' characteristics are explained and their impact on corporate tax avoidance is studied.

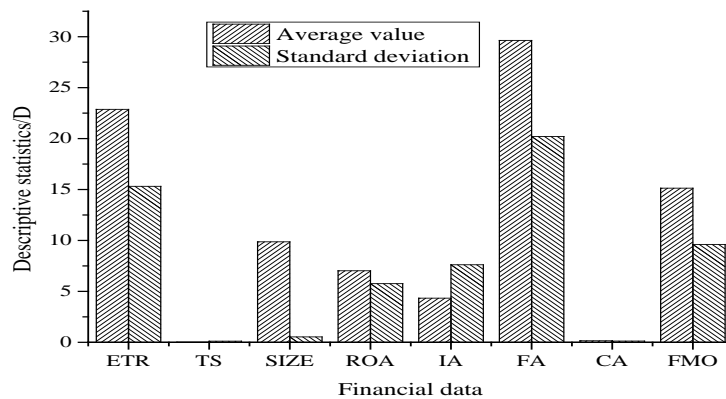


Figure 5. Descriptive statistics of enterprise financial data

As shown in Figure 5, in the descriptive statistics of corporate financial data, the average effective tax rate is about 23%. The higher the ratio of intangible assets to fixed assets, the lower the corporate tax avoidance degree. The average size of the company is about 10. The average cost in the financial period is about 15, and its size will directly affect corporate tax avoidance. The less cash equivalents, the higher the degree of tax avoidance.

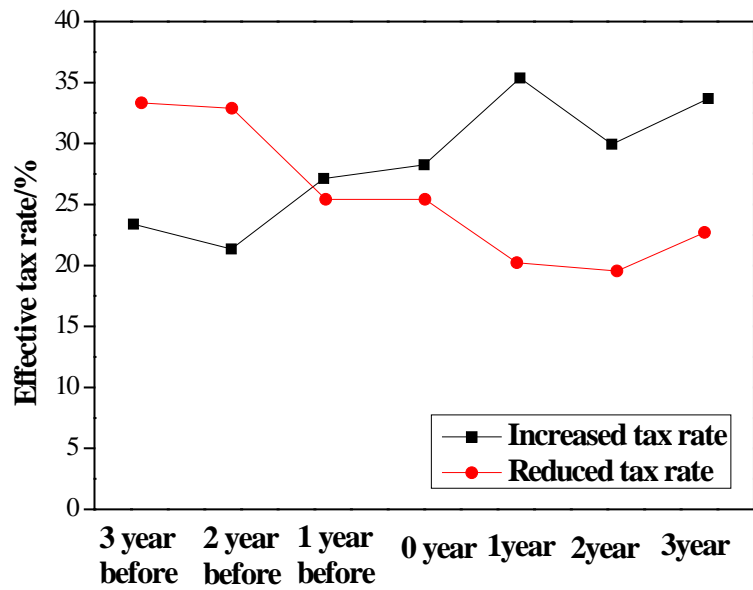


Figure 6. The influence of chairman's characteristics on corporate tax avoidance under the change of senior management

As shown in Figure 6, it is the influence of chairman's characteristics on corporate tax avoidance under the change of senior executives. The change of effective tax rate in the first three years and three years after the chief executive chairman's tenure is analyzed. Through the analysis of tax rate increase type and decrease type, it is concluded that tax rate increase type chairman, after taking office, the enterprise's tax avoidance degree increases, the effective tax rate increases up to more than 10%. Chairman with reduced tax rate, after taking office, the tax avoidance degree of the enterprise began to decline, and the effective tax rate was reduced by about 10%. Therefore, the effective tax rate of the enterprise is higher than that of the enterprise outside the term of office.

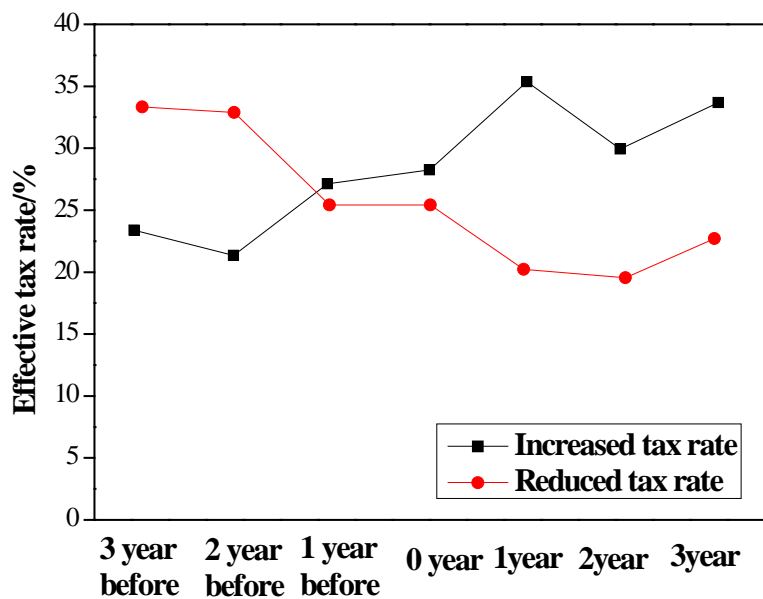


Figure 7. The influence of the characteristics of general manager on the degree of corporate tax avoidance under the change of senior management

As shown in Figure 7, it is the influence of the general manager on corporate tax avoidance under the change of senior executives' tenure. The effective tax rate of the enterprise increases after the general manager takes office. After the general manager with reduced tax rate takes office, the effective tax rate of the enterprise shows a downward trend, and the highest effective tax rate drops by about 15%, which has a significant impact. Tax - increasing executives will take less tax avoidance measures and reduce the degree of tax avoidance.

4. Conclusion

From the perspective of the characteristics of corporate executives, this research analyzes the different characteristics of corporate executives and studies the influence of the characteristics of executives on corporate tax avoidance. Under the analysis of executive theory, executive echelon theory and effective rational hypothesis theory and through the regression model, the possibility of the influence of executive characteristics on corporate tax avoidance is established, and the influence mechanism of executive characteristics on corporate tax avoidance is analyzed by combining executive background characteristics with corporate tax avoidance behaviors. This research analyzes the five characteristics of senior executives, including age, gender, educational background, tenure and financial background, as well as the effective tax rate, tax avoidance degree, company size and accounting period expenses. The influence of the change of senior management on corporate tax avoidance is analyzed. It is concluded that the characteristics of executives will influence the decision-making of corporate tax avoidance. Due to the short research process, there are still some shortcomings, and later research can be more scientific from other executive characteristics variables.

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