The Influence of Board Attributes towards Tax Avoidance: Evidence from Malaysian Public Listed Companies

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Abstract

The objective of the research is to examine the relationship between board attributes and TA among publicly listed companies. This study utilised a quantitative approach using secondary data from companies listed on the Bursa Malaysia Top 100 Index. The final sample consists of 79 firms. The annual reports from 2018 to 2022 were used for data collection, with 395 firm-year observations. The dependent variable was TA, which was proxied by the effective tax rate, and the independent variables were board size, board independence, board gender diversity, and CEO duality. This study shows a negative and significant relationship between board size and TA. Meanwhile, there is no association between board independence, board gender diversity, and CEO duality, and TA. This research focused on one facet of CG, namely the board attributes, and only four variables are included in this study. Hence, it provides a narrow view of the relationship between CG and TA. Besides that, this research was conducted in the Malaysian context and thus may differ from research conducted in other countries. The outcome of this study could offer useful insights to investors and other stakeholders in their decision-making process. Besides that, regulators can reference this study to strengthen the CG codes to protect stakeholder interests.

Keywords: corporate governance, agency theory, board attributes, tax avoidance

1. Introduction

Tax planning strategies are common practices among businesses aiming to lower tax liabilities (Iazzi et al., 2023). Nevertheless, theses strategies may lead to tax avoidance (TA) and aggressive tax strategies, pushing the limit on what is considered legitimate by law (Starpicks, 2021). Although some people view TA as a socially irresponsible and unethical practice, it is legal and it requires the exploitation of existing loopholes within jurisdictional tax codes, such as tax deductions and tax credits, to minimise tax payable to the government (Kirchler, Maciejovsky & Schneider, 2003). In addition, TA significantly influences national revenues and is a global endemic plaguing all nations, resulting in losses exceeding billions in annual tax revenue (Cobham & Janský, 2018). TA also causes the frameworks of legal compliance, organisational integrity, and society to deteriorate, as corporate TA means significant economic losses to the government, which deters national development projects and public services. Thus, dismantling the foundations of a flourishing society (Bird & Davis-Nozemack, 2018).

The awareness of the global endemic that is corporate TA has gained much attention over the last few years, with authorities summoning big corporations such as Google and Amazon to explain and rectify their previous TA practices (Matsuoka, 2018). As per the agency theory perspective on TA, Desai and Dharmapala (2009) surmised that TA is not simply an act that promotes tax savings to increase firm value; it is also a means for opportunistic behaviour and permits the tax-saving benefits to be pocketed by self-serving managers. This indicates an evident agency issue that must be abated by narrowing the gap between ownership and control in the contractual relationship between principals and agents. These agency issues can be mitigated by implementing CG principles such as responsibility and fairness. CG is a crucial component in fostering a strong financial and business environment that enables companies to position themselves strategically in the capital market. A company with good governance demonstrates less TA (Hasan et al., 2023), and the value-destroying impacts of TA are less significant in those companies (Chen, Sapiei & Abdullah, 2018).

Based on prior literature, various components of CG explored in prior studies had a bearing on corporate TA, for instance, ownership structure (Dakhli, 2022; Jiang, Zheng & Wang, 2021), audit (Chytis, Tasios, & Gerantonis, 2019; Kerr, Price, & Román, 2021), management compensation (Chee, Choi & Shin, 2017; Zolotoy et al., 2021), and board characteristics (Hoseini, Safari Gerayli, & Valiyan, 2019; Kolias & Koumanakos, 2022). Despite extensive research on TA in previous years, there is still a scarcity of evidence from developing nations (Alkurdi & Mardini, 2020). This presents a dilemma as cross-country differences such as institutional frameworks and cultural settings may have different influences on CG as well as tax behaviour. Therefore, more research should be conducted in developing countries to better compare and contrast the efficacy of CG in managing agency costs due to TA.

As custodians of strategic decision-making, resource allocation, and the enhancement of company performance and shareholder value, board members assume a pivotal role in determining the tax planning strategies of the organization. Hence, different CG structures may result in different tax planning strategies (Garbarino, 2011). An essential component of CG is the corporate board members who set the tone at the top regarding tax strategies and can be liable for corporate TA, as demonstrated by the case of the Government of Malaysia versus Mahawira Sdn. Bhd. and Anor. In accordance with the case's verdict, directors may be held accountable for periods during which they served in their capacity as directors, and according to Sections 96(1) and 103(2) of the Income Tax Act 1967, the tax assessment notice must be formally served to the director before the director can be held liable (Khong, 2021). Due to the weight of the corporate TA issue and directors' liability for corporate tax compliance, the board of directors (BOD) has an integral function in managing TA.

Prior literature has explored the significance of board attributes on TA, for example, board size (Boussaidi & Hamed, 2015), board independence (Kerr et al., 2021), board gender diversity (Hoseini et al., 2019; Jarboui, Kachouri Ben Saad, & Riguen, 2020), and CEO duality (Chytis et al., 2019; Kolias & Koumanakos, 2022) with mixed results. In the Malaysian context, recent prior studies on board characteristics' relationship with corporate TA were examined using financial data before the implementation of MCCG 2017 (Ibrahim & Farahiyah, 2021), and board gender diversity was analysed separately from other board attributes (Rakia, Kachouri, & Jarboui, 2023).

The Malaysian Code on Corporate Governance (MCCG) of 2017 incorporated the mandate necessitating the inclusion of at least 30% women on corporate boards for large companies and a strong recommendation for other companies to also meet this specified target. Besides that, it provides best practices and guidance to Malaysian companies with the aim of strengthening board oversight and integrating sustainability considerations into company operations and strategic planning. Therefore, the MCCG 2017 furnishes enhanced guidance for companies to cultivate an effective board conducive to the pursuit of sustainable development goals, encompassing socially responsible practices. In consequence, this regulatory framework acts as a deterrent to the adoption of tax strategies viewed as either aggressive or socially irresponsible. Given the recent implementation of MCCG 2017 and the requisite transitional period for companies to conform to its stipulations, there are limited studies exploring the influence of board attributes, inclusive of board gender diversity, on corporate TA using recent financial data. Therefore, the objective of this research is to examine the influence of CG, namely board size, board independence, board gender diversity, and CEO duality, on corporate TA in Malaysian PLCs.

1.1 Literature Review

1.1.1 Tax Avoidance

TA is the practice of lowering tax liability relative to pre-tax income. However, corporate TA strategies can be challenging to maintain, especially within dynamic business environments and changing regulatory requirements. Besides that, TA strategies call for investment alternatives that may increase company risks. The reason being that these investments are temporary in nature and only lower tax rates in the current reporting period, which would rebound to higher tax rates in the following periods and garner the attention of tax authorities. Abnormal fluctuations in corporate tax rates are used as indicators by tax authorities when choosing tax audits and investigation cases. This could potentially lead to tax disputes, which are counterproductive to the company as it would increase the tax burden rather than lower it as intended. Hence, it can be viewed as a risky endeavour with possible negative impacts on shareholder value in relation to the rise of agency costs (Choi & Park, 2022).

While most taxpayers attest to engaging in TA solely to minimise tax liability, they also gain tax benefits. Hence, TA can also be defined as the practice of generating tax benefits. The term 'tax avoidance' is subjective and encompasses a broad spectrum of activities. While the conventional distinction between TA and tax evasion relies on the legality of the practice, discerning differences between them have been vague, with some TA schemes being reproached by the tax authorities with the same level of scrutiny formerly reserved for tax evasion.

Thus, it is difficult to assess the acceptability of corporate TA strategies, and with multiple parties involved, such as managers, those charged with governance, tax authorities, the public, and other stakeholders, it alludes to the question of acceptability from divergent perspectives. The subject matter is made more complicated if different tax jurisdictions are involved. Thus, the use of legality as a defining aspect to differentiate between TA and tax evasion is insufficient (Bowler, 2009). As TA is a direct transfer of monies from society to corporations, it is argued that TA is socially irresponsible because it deprives society of its rights to those resources. Companies have statutory obligations to abide by the law, and the legality of TA creates ambiguity in terms of the acceptability of its practices (Kovermann & Velte, 2019).

There are opposing opinions on the legitimacy of using TA strategies in corporations. TA can be divided into two categories: The first category involves leveraging available tax benefits and reliefs, which are deemed entirely permissible when accessed by eligible entities. However, should an ineligible taxpayer exploit these provisions, it would be regarded as an illicit action, potentially leading to legal consequences. Second, it is the unethical act of manipulating tax regulations (Chua, 2021). TA is deemed legal in Malaysia based on the verdict statement of the Federal Judge in the case of IRBM versus Rakyat Berjaya Sdn. Bhd., which stated that it is common sense for companies to reduce tax payable as much as possible in any business transaction and that there is no harm for companies to organise their affairs in a way that minimises tax (Starpicks, 2021).

However, the attitude towards TA has changed, and the Malaysian IRB is paying more attention to TA strategies because, although not illegal, these tax planning schemes formulated to avoid taxes are abusive and have eroded the fairness and integrity of the tax system (The Star Says, 2017). Additionally, the legality of TA can easily turn to aggressive tax planning or “wilful evasion” based on Section 114 of the Income Tax Act of 1967 (ITA) (Starpicks, 2021). The anti-tax avoidance law was enacted in Section 140 of the ITA to regulate TA practices and authorise the Malaysian Inland Revenue Board to disregard certain abnormal discretionary transactions intended to minimise tax liabilities in the tax assessment (ACCA, 2016). However, the legislation was still inadequate in defining aggressive tax planning.

Different viewpoints and desired outcomes of TA led to several definitions. The OECD tax glossary defined it as “a term that is difficult to define but which is generally used to describe the arrangement of a taxpayer’s affairs that is intended to reduce his tax liability and that, although the arrangement could be strictly legal, it is usually in contradiction with the intent of the law it purports to follow” (OECD, n.d., para. 40). The definition of tax evasion and how the legal aspects of TA differ from tax evasion’s act of intentional and illegal concealment of monies were also provided by the OECD. However, despite this, it is still quite difficult to distinguish the two, even from a legal standpoint, as TA practices have gotten quite complex over the years (Vlcek, 2019).

TA and tax evasion are both deviant tax behaviours with the objective of gaining unfair advantages by manipulating existing tax laws. Taxpayer intent and materiality thresholds should be taken into consideration when differentiating between TA and evasion because aberrations from tax laws are not necessarily deemed fraudulent. The lack of infringement of tax regulations does not make it legitimate because there is still manipulation of ambiguous tax laws, which may prompt issues of tax disparity (Kouroub & Oubdi, 2022).

Due to the prevalent issue, the OECD subsequently extended the definition of TA to encompass aggressive tax planning in order to rationalize the intensified international hunt for corporate tax from multinational companies. That being said, determining the level of aggressiveness is a challenging task, and ultimately, this decision depends on what is deemed aggressive by the tax administration (Vlcek, 2019).

Besides that, corporate TA is viewed as an abhorrent practice by the public and is deemed unfair (Sheffrin & Zhao, 2021). Therefore, in view of Malaysia’s participation in the OECD BEPS project to fight against multinational TA as well as the moral and economic issues that are presented by corporate TA (OECD, 2021), this research shall broadly define corporate TA as “anything that reduces the firm’s taxes relative to its pretax income” (Dyreng, Hanlon, & Maydew, 2010, p. 2). Therefore, this research will cover a wide range of corporate TA activities, notwithstanding the level of aggressiveness or legality of the subject matter.

1.1.2 Corporate Governance and Agency Theory

In compliance with the MCCG 2017, companies should assess the appropriate board size to ensure the number of directors is sufficient to ensure board effectiveness. Furthermore, at least 50% of the board must be independent, with large companies being encouraged to exhibit a higher percentage of board independence. In terms of board gender diversity, companies should disclose their gender diversity policies, targets, and initiatives, and large companies are expected to have a minimum of 30% women. Finally, in terms of CEO duality, paragraph 1.3 clearly states the requirement of separation of duties between the chairperson and the CEO and requires a clear division of duties to be stated in the board charter (MCCG, 2017). The MCCG facilitates the development of boards to foster a greater sense of responsibility and efficacy in safeguarding investors' interests. Malaysian companies are expected to incorporate CG principles into their CG mosaic. However, the principles applied are contingent upon the company characteristics and conditions in which it operates, and as a principle-based framework, the MCCG allows for some flexibility in its implementation (Abdul Wahab et al., 2017).

According to Cadbury (2000), CG issues arise because of the separation of ownership and control in corporations. There may be instances where an agent's or manager's interests conflict with those of the principal or shareholder due to information asymmetry (Jensen & Meckling, 1976). The board of directors (BOD) which is the agents provides counsel and oversight functions for company management (Alkurdi & Mardini, 2020), and according to the agency theory, an effective BOD improves financial reporting credibility and ethical conduct (Jensen & Meckling, 1976). Nevertheless, there is a probability for agents to pursue personal interests instead of protecting the interests of principals (Iazzi et al., 2023). The contractual relationship between agent and principal involves the delegation of decision-making authority, and being different parties, principals and agents typically have different interests, which often leads to agency problems.

Desai and Dharmapala (2006) argued that the alignment of management and shareholder interests via executive compensation packages could mitigate opportunistic tax planning behaviour. Therefore, to align differing principal-agent interests and control agency costs, compensation mechanisms must be appropriately devised in response to the information asymmetry created by the separation of ownership and control. Thus, it is necessary to design an appropriate compensation package tied to performance indexes that increase shareholder wealth in order to align the interests of shareholders and managers. In addition, Iazzi et al. (2023) found that when management personnel are given significant managerial authority and control over the flow of information, thus creating a wider gap between ownership and control, it increases the probability of TA. Although TA may lead to greater shareholder wealth, it can also create agency problems due to the risk of opportunistic or rent-seeking behaviour that destroys firm value. Thus, effective monitoring by the BOD is essential to subdue agency problems originating from TA practices.

Besides that, agency problems may arise when principals and agents have differing risk appetites. While reductions in tax liabilities can enhance corporate earnings and shareholder benefits, TA schemes carry inherent risks. Management will be less likely to engage in TA strategies beneficial to the company if shareholders and management interests are misaligned. Therefore, to ensure the decisions made by agents are in the interests of the principal, control mechanisms should be in place to regulate managerial risk appetite to a level acceptable to the shareholders.

1.1.3 Board Attribute

The BOD should perform its duties effectively in reviewing and monitoring strategic decisions, including tax planning strategies. However, the agency theory posited that these tax planning strategies aimed at reducing tax liabilities and increasing company value can be counterintuitive and destroy value instead (Hoseini et al., 2019). Hence, the board structure needs to be properly established as part of the internal CG mosaic to ensure alignment of interests and reduce agency problems.

The board size is one of the key components of the BOD attributes. The optimal number of directors should be ascertained to ensure sufficient members are available to fulfil the board's responsibilities and perform its various stewardship and monitoring roles. Board size is typically used as a proxy for director expertise, where larger boards are perceived to be more effective in controlling and monitoring company management. With greater distributable resources, larger boards could improve their capability to spread oversight responsibilities (Abdul Wahab et al., 2017). The agency theory postulates that a small BOD leads to effective monitoring and improved performance, while a larger BOD would lower effectiveness (Ibrahim & Farahiyah, 2021). However, some studies argue that a larger BOD, representing greater resources and expertise, enhances the capacity to allocate oversight functions among more board members, thus contributing to effective monitoring (Iazzi et al., 2023).

Board independence is the CG mechanism most extensively correlated to corporate TA (Minnick & Noga, 2010). The agency theory suggests that board independence provides effective control over managerial actions and decisions. Independent non-executive directors facilitate the mitigation of agency problems, and their presence may contribute to more streamlined and efficient decision-making within the company (Ibrahim & Farahiyah, 2021). Independent directors generally refer to outside directors who provide independent oversight and are more connected to the interests of shareholders than to the interests of management. Thus, board independence is a condition in which a director is independent of management and major shareholders. Based on the agency theory, BOD monitoring effectiveness increases with more independent directors (Alkurdi & Mardini, 2020).

Board gender diversity, a component of board diversity, refers to the proportion of female directors on the board (Rakia et al., 2023). The prominence of women on boards has attracted considerable attention owing to their demonstrated effective monitoring capabilities. Their presence is posited to contribute to impartiality in the deliberation of shareholders' and other stakeholders' interests (Hoseini et al., 2019). Women are expected to improve board monitoring effectiveness and elevate the ethical standards guiding the corporate board and the organization as a whole. Hence, it is less likely that they will tolerate opportunistic behaviour from managers. The agency theory posits that female directors offer a more diverse view, which increases board effectiveness and reduces agency costs (Rakia et al., 2023).

The last attribute which is CEO duality is where an individual holds the position of both CEO and Chairperson. When one individual holds the two roles, it allows for a concentration of power within the organisation that could encourage opportunistic behaviour. According to the agency theory, separating the two roles could provide crucial accountability and oversight of managerial performance. CEO duality allows unfavourable information to be withheld from outsiders and the engagement of opportunistic behaviour (Iazzi et al., 2023). However, there are arguments supporting CEO duality, as organisations are claimed to be more strategic and dynamic in their corporate planning and decisions when power is concentrated in one individual.

2. Research Framework and Hypothesis Development

2.1 Board Size and Tax Avoidance

Board size can influence company policies. Therefore, board size may influence strategic decisions and, consequently, CG quality. The question of whether an effective board should be small or large remains unanswered in the CG literature (Ibrahim & Farahiyah, 2021). Prior literature has documented that board size can influence its monitoring efficacy. However, opinions regarding how board size impacts monitoring and, consequently, performance are inconclusive, with mixed results and interpretations by prior researchers. For instance, larger boards are likely to face agency problems while smaller boards perform more effectively (Jensen, 1993).

According to Hoseini et al. (2019), larger board sizes lead to more TA practices. Although there is no empirical consensus on the best board size, the study reasoned that the number of directors should be reduced to the extent that it allows company issues to be discussed effectively, especially in a dynamic and competitive business environment where quick decision-making contributes greatly to value creation and sustainability. A smaller board size would eliminate conflicting views and increase problem-solving and decision-making efficiency in the company. Similarly, Iazzi et al. (2023) concluded that board size was positively related to TA, suggesting that companies with larger boards may engage in aggressive TA strategies, which can be harmful to the company and reduce shareholder value. In addition, the study argued that oversight could be weakened as the number of directors grows, resulting in lengthy and in-depth policy debates that could diminish the effectiveness of board decisions.

On the contrary, some have observed a negative relationship between board size and TA (Alkurdi & Mardini, 2020). In a study examining the relationship between political connections and tax aggressiveness in Malaysia, Abdul Wahab et al. (2017) also investigated the association between CG structures and tax aggressiveness and suggested that larger boards serve as an instrument for oversight, inhibit aggressive TA strategies, and that tax-aggressive companies have substantially smaller boards. Ibrahim and Farahiyah (2021) examined the relationship between board size and TA via both quantitative and qualitative modes of investigation. The quantitative study found that board size is positively and significantly related to four variants of the effective tax rate (ETR), hence being negatively related to TA. These studies suggested that a larger board would better prevent corporate TA due to adequate resources being employed to monitor and control different aspects of tax planning and management.

Besides, some studies have observed no significant association between board size and TA (Boussaidi & Hamed, 2015). A study by Khaoula and Mohamed Ali (2012) extended the findings by Jensen (1993), in which they hypothesised a negative relationship. However, their results indicated that board size had no influence on corporate tax planning, which was proxied by ETR. Hence, we can conclude from prior literature that the findings with regards to the relationship between board size and TA were mixed and inconclusive. Therefore, this study hypothesizes that:

H1 – There is a significant negative relationship between board size and TA among the public listed companies (PLCs) in Malaysia.

2.2 Board Independence and Tax Avoidance

Board independence typically refers to external directors who function as independent observers who are more inclined towards protecting the interests of the stakeholders than management. These directors usually have a comprehensive view of the company's strategy and its impact on its stakeholders. Their roles are especially important due to the conflicts of interest that may exist between the internal directors and the shareholders, which could translate into opportunistic decision-making that destroys firm value (Alkurdi & Mardini, 2020). However, managerial opportunism can be mitigated when external directors serve on the board. Hence, they are capable of providing independent monitoring of managerial decisions and strategies (Fama, 1980).

In an extended study by McClure et al. (2018) examining the influence of dividend imputation on corporate TA, the association between board independence and TA was also investigated. The analysis suggested a significant positive relationship between board independence and TA in both imputation and classical tax systems. Similarly, there is a positive relationship between board independence and tax planning, indicating greater pursuits of tax-saving initiatives by management, consistent with the traditional view of TA in which it is viewed as a catalyst for maximising shareholder value (Chytis, Tasios, & Filos, 2020).

However, there are also studies that found a negative association between board independence and TA. According to Alkurdi and Mardini (2020), board independence increases ETR and, hence, reduces TA. The findings demonstrate that when there is a satisfactory percentage of independent directors, the directors are able to use their experience and authority to effectively monitor and control managerial behaviour in terms of corporate TA, a practice plagued with economic and social issues. Consequently, this leads to enhanced safeguarding of the company's reputation, thereby contributing to improved overall performance.

Additionally, although the supporters of the agency theory regard independence as a fundamental component in thwarting opportunistic behaviour and safeguarding shareholder value, some studies found no significant relation between board independence and TA. For instance, Khan et al. (2022) established a positive relationship between corporate social responsibility and subsequently examined the relationship between board independence and CSR, which was found to be insignificant. As TA is considered by many a to be socially irresponsible behaviour, the inherent relationship between CSR and TA was reasonable. Therefore, the study determined that there is no significant relationship between board independence and TA.

Similarly, other studies also found no significant relationship between the two variables (Iazzi et al., 2023; Ibrahim & Farahiyah, 2021). Despite the mixed results presented in prior literature, the underlying agency theory postulates the contributions of board independence towards improved monitoring and governance. Therefore, this study hypothesizes that:

H2 – There is a significant negative relationship between board independence and TA among the PLCs in Malaysia.

2.3 Board Gender Diversity and Tax Avoidance

Diversity in corporate boards enables the BOD to consider diverse opinions and utilise varying competencies to execute its fiduciary duties, hence reducing TA (Jarboui et al., 2020). From a social standpoint, women are entitled to seize opportunities to serve on boards to the same extent as men. From an economic perspective, organisations possess the prerogative to optimise the utilisation of the human resource pool, appointing any qualified personnel irrespective of gender (Hoseini et al., 2019).

The existing body of knowledge on board gender diversity found that the inclusion of female directors on the board increases firm value. However, there were also studies providing empirical evidence refuting those findings. As expected of any research area, the investigation on board gender diversity demonstrated mixed and inconclusive results, with some findings revealing women's presence on the board improving performance and influencing major changes in human resources and operations, while some proposed contradicting notions and others found no impact whatsoever.

According to Iazzi et al. (2023), the presence of female board members encourages TA, indicating a significant positive relationship between board gender diversity and corporate TA practices. Although the findings were contradictory to the principle discussed in its literature, the study reasoned that board gender diversity played a strategic role in balancing performance and risks. Thus, the involvement of female directors increased the effectiveness of corporate tax strategy, thereby maximising shareholder value and mitigating the negative consequences associated with TA practices.

However, most extant literature found a negative relationship between board gender diversity and TA. For instance, Hoseini et al. (2019) provided empirical evidence and rationalised the findings in accordance with the agency and stakeholder theory. From the stakeholder theory perspective, women on boards increase monitoring effectiveness, allowing for better-informed decision-making and accountability to societies by paying their fair share in taxes. Meanwhile, from the agency theory perspective, women on boards constrict managerial opportunism and bridge the gap between ownership and control. Other studies also indicated that TA is lower with a higher fraction of female directors (Jarboui et al., 2020). Riguen, Salhi and Jarboui (2020) examined the moderating effects of different percentages of board gender diversity in the relationship between audit quality and TA. They concluded that the extent to which audit quality reduces TA is heightened when there are higher levels of board gender diversity. Nevertheless, there were also studies that found no significant relationship between board gender diversity and TA (Khan et al., 2022; Prasetyo, 2019).

Although the results of prior literature were varied, the MCCG encourages the inclusion of women on corporate boards. Therefore, this study hypothesizes that:

H3 – There is a significant negative relationship between board gender diversity and TA among the PLCs in Malaysia.

2.4 CEO Duality and Tax Avoidance

CEOs are an integral part of any organisation and are crucial in strategic decision-making, such as tax strategy. They are expected to fulfil their fiduciary duties in a way that maximises shareholder value. However, as part of the managerial group, there may be instances where the CEO may act against the interests of the shareholders. Hence, an independent chairman of the board is usually appointed to monitor and control managerial decisions. Thus, it is recommended that the roles be kept separate.

A situation where there is no separation between the two roles is known as CEO duality (Boussaidi & Hamed-Sidhom, 2021). The amalgamation of managerial and monitoring functions within a singular position may have adverse effects on shareholder value by intensifying information asymmetry. This heightened asymmetry increases the probability of opportunistic behaviour and conflicts of interest (Fama & Jensen, 1983). Prior literature examining the relationship between CEO duality and TA documented mixed results. Consistent with the agency theory and recommendations of CG codes, there are studies that found a positive relationship between CEO duality and TA, indicating that the lack of separation between the two roles led to higher TA practices, which provided opportunities for rent-extraction by managers (Ezejiofor & Ezenwafor, 2021).

According to Iazzi et al. (2023), CEO duality increases the propensity to commit TA because, in the era of globalisation and increased competition, company management is compelled to make decisions aimed at maximising returns to shareholders. However, shareholders are cautioned to be aware of managerial opportunism potentially involved in those decisions, as there are risks to TA practices that could destroy shareholder value, creating agency problems and costs. Therefore, shareholders should regularly assess the effectiveness of board monitoring and provide appropriate reward packages to align principal-agent interests.

Besides that, there are also studies that conclude a negative association between CEO duality and TA. According to Madah Marzuki and Muhammad (2021), the relationship between CEO duality and tax aggressiveness is found to be negative, which is attributable to the institutional setting of a family-oriented environment. This setting mitigates the influence of CEO duality on tax aggressiveness. Similar results were found by Kolias and Koumanakos (2022). The findings were said to corroborate the agency theory because the concentration of power arising from CEO duality increases management risk aversion.

Thus, companies with CEO duality are likely to engage in less TA compared with firms with no CEO duality. However, there were also researchers whose empirical findings provide no statistical evidence whatsoever with regards to the relationship between CEO duality and TA (Chytis et al., 2019; Ibrahim & Farahiyah, 2021). Despite the mixed and inconclusive results documented in prior literature, the agency theory proposed that CEO duality could reduce TA. Therefore, this study hypothesizes that:

H4 – There is a significant positive relationship between CEO duality and TA among the PLCs in Malaysia.

Figure 1 illustrates the conceptual framework of this study, suggesting a relationship between the independent variables and the dependent variable.

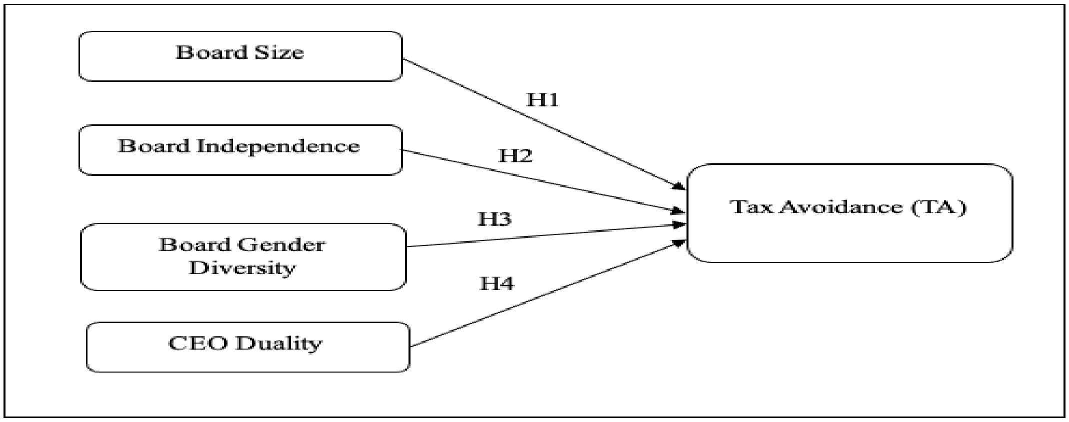

Figure 1. Conceptual Framework of the Relationship between Board Attributes and Tax Avoidance (TA) among the PLCs in Malaysia

3. Research Methodology

3.1 Research Design and Sampling Method

The population of the study is the Top 100 Malaysian Listed Companies, which is used as the initial sample. The initial sample of companies will be selected from the FTSE Bursa Malaysia Top 100 Index, which lists the top 100 Malaysian listed companies by total market capitalization. The period of study from 2018 until 2022.

Table 1. Summary of Final Sample

Sample	Number of firms
Initial sample	100
Financial firms	(14)
Missing firms	(7)
Final sample	79
Total firm-year observations	395
Extreme values for specific years	(50)
Total firm-year observations	345

The use of the FTSE Bursa Malaysia Top 100 ensures statistical power and maximum data availability because the FTSE Bursa Malaysia Top 100 companies are more likely to implement all CG guidance concerning board attributes. Financial firms will be disregarded in this study due to the differences in their accounting and reporting requirements. As shown in Table 1, a total of 14 financial firms were identified in the FTSE Bursa Malaysia Top 100 Index, and 7 companies were found to have missing data; hence, these companies were subsequently removed from this study, leaving the study with a final dataset comprising 79 companies and encompassing 395 firm-year observations. According to Sekaran and Bougie (2016), a sample size of 395 is sufficient to perform inferential analysis, specifically a regression analysis.

3.2 Variable Measurement

The dependent variable is TA, which is a strategic practice employed by organisations to reduce their tax liability relative to their pre-tax income, thereby yielding potential tax savings. TA is proxied by the effective tax rate (ETR), measured by dividing tax expense by profit before tax (Rakia et al., 2023). The first independent variable is board size which measured using the total number of members serving on the BOD. For board independence, it is calculated by dividing the number of independent non-executive directors by the total number of directors. Next, the measurement of board gender diversity involves calculating the proportion of women serving on the board. Lastly, CEO duality is measured by using a dummy variable that takes a value of 1 if there is the presence of CEO duality and 0 if it is otherwise.

3.3 Regression Analysis

Empirical research model was designed to examine the relationship between board attributes and tax avoidance among public listed firms in Malaysia. The dependent variable is the tax avoidance, while the independent variables are board size, board independence, board gender diversity and CEO duality. The following regression model were used on the hypothesis:

TA = α + β1(BS) + β2(BI) + β3(BGD) + β4(CD) + £

Where;

TA = The percentage of tax expense from profit before tax (ETR)

BS = The total number of members serving on the BOD

BI = The percentage of independent non-executive directors from the total number of directors

BGD = The percentage of women serving on the board

CD = Dummy variable that takes a value of 1 if there is the presence of CEO duality and 0 if it is otherwise

£=The standard error

4. Results

This section will discuss the results on descriptive statistics, Pearson correlation coefficient and multiple linear regression.

Table 2. Descriptive Statistics for All Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
TA (ETR)	345	-0.03	0.44	0.2093	0.0999	-0.343	-0.344
BS	345	5.00	13.00	8.5826	2.0572	0.000	-0.988
BI	345	0.30	0.80	0.5256	0.0985	-0.068	-0.084
BGD	345	0.00	0.60	0.2488	0.1293	0.149	-0.454
CD	345	0.00	1.00	0.0754	0.2644	-0.343	-0.344

Table 2 presents a descriptive analysis of all variables, illustrating the minimum, maximum, mean, standard deviation, skewness and kurtosis values for each variable in this study. Tax avoidance (TA) is proxied by ETR that referring to the percentage of tax expense from profit before tax. Borad size (BS) is the total number of members serving on the board of directors. Board independence (BI) is the percentage of independent non-executive directors from the total number of directors. Board gender diversity (BGD) is the percentage of women serving on the board while CEO Duality (CD) is dummy variable that takes a value of 1 if there is the presence of CEO duality and 0 if it is otherwise. The normality assumption is acceptable since the skewness for all the variables is between -2 and +2 while the kurtosis for all the variables is between -7 and +7.

Table 3. Pearson Correlation Analysis Results

	TA (ETR)	BS	BI	BGD	CD
TA (ETR)	1				
BS	0.215**	1			
BI	-0.058	-0.067	1		
BGD	0.052	0.181**	0.135*	1	
CD	-0.049	-0.038	-0.042	-0.081	1

Note: **Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed).

The Pearson Correlation Coefficient summarises the correlation between the variables in the study, providing an estimate of the strength and direction of the relationships. From Table 3, the Pearson Correlation Coefficient between Board Size and ETR is 0.215 at a significance level of 0.01. TA is proxied by ETR, which has an inverse relationship in which a lower ETR indicates a higher likelihood of TA (Alkurdi & Mardini, 2020). Hence, the result indicates a negative and significant relationship between Board Size and TA. Meanwhile, the correlation value between Board Size and Board Gender Diversity is 0.181, which indicates a positive and significant relationship between the two variables. The correlation between Board Independence and Board Gender Diversity is 0.135, which indicates a positive and significant relationship between the variables. Furthermore, Table 3 shows no multicollinearity issues between the variables since all values are less than 0.8.

Table 4. Model Coefficients for Multiple Linear Regression

Independent Variables	Effective Tax Rate (ETR)		
	β (Unstandardized)	T-value	Significant
Constant	0.147	3.900	0.000
BS	0.010	3.842**	0.000
BI	-0.049	-0.907	0.365
BGD	0.014	0.323	0.747
CD	-0.016	-0.778	0.437
R^2	0.050		
Adj. R^2	0.039		
Durbin Watson	2.048		
P-value (ANOVA)	0.001		

Note: ** P-value significant at 0.05.

Based on Table 4, Board Size is significantly positive relation to ETR, with a p-value below 0.05. Meanwhile, Board Independence, Board Gender Diversity, and CEO Duality are not significantly related to ETR since the p-value is above 0.05. Given the inverse relationship between ETR and TA, H1 is supported as there is a significant and negative relationship between Board Size and TA while H2, H3, and H4 are not supported.

5. Discussion and Conclusion

This paper investigated the relationship between CG in terms of board attributes, which comprised of board size, board independence, board gender diversity, and CEO duality, and TA practices among the FTSE top 100 PLCs in Bursa Malaysia. The results show that only board size has a negative relationship with TA, which indicates that a larger board size can mitigate TA practices. One plausible explanation for this finding could be attributed to improved governance and oversight because, with more directors serving on the corporate board, there is a higher probability for the board to incorporate a diverse set of skills and expertise. Such diversity can contribute to a more comprehensive scrutiny of company tax planning and strategies, foster a culture of robust checks and balances that promotes accountability, and thereby reduce the likelihood of engaging in corporate TA.

Besides, a larger board may also bring different perspectives into the decision-making process and might be more responsive to other stakeholders’ interests. Since TA is increasingly seen as an unethical and socially irresponsible practice by stakeholders, these larger boards may take the initiative to mitigate corporate TA practices to maintain a good reputation among these stakeholders and continue to align with their expectations of corporate social responsibility. The finding is contra with the arguments provided by prior studies based on the agency theory, which found that larger boards tend to be less effective in terms of board oversight due to communication and coordination challenges, which in turn reduces value and increases TA (Hoseini et al., 2019; Iazzi et al., 2023). Thus, in the context of this research, the agency theory which supports the use of smaller board sizes may not be relevant.

The results indicate that board independence had no influence on TA. Boards commonly turn to external tax advisors and consultants to navigate the intricacies of tax laws. In companies that heavily emphasise quarterly results, independent directors may be inclined to concentrate on meeting short-term financial targets. This pressure could result in decisions that prioritise immediate financial gains over long-term tax planning strategies. In addition, board gender diversity also had no influence on TA. The prevailing corporate culture and decision-making processes may exhibit homogeneity, irrespective of gender. If both male and female board members share similar perspectives and approaches to corporate TA, board gender diversity may not exert any discernible impact on corporate TA. Furthermore, the study also found an insignificant relationship between CEO duality and TA.

The results could provide the Malaysian Inland Revenue Board (IRBM) with actionable guidance in optimising its audit strategies. TA has been an issue for the IRBM, resulting in billions of losses in tax revenue. The identified negative relation between board size and TA suggests that companies with smaller board sizes are more likely to engage in TA practices. Therefore, the IRBM can leverage this knowledge to prioritise its resources and focus tax audits as well as investigations on companies with smaller boards, thereby increasing the likelihood of detecting and mitigating corporate TA. Nevertheless, this study is limited to the Top 100 publicly listed companies. Therefore, the results can not be generalized to the general population. Future research may include private companies expanding the sample and type of industries to determine the industrial effects.

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