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CEO POWER AND TAX AVOIDANCE IN MALAYSIA: THE MODERATING EFFECT OF BOARD GENDER DIVERSITY

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ABSTRACT

This study examines the relationship between chief executive officer (CEO) power and tax avoidance and the moderating effects of board gender diversity on this relationship. Based on companies listed on the Main Market of Bursa Malaysia from 2009 to 2019, it is found that CEO power is positively associated with tax avoidance. This suggests that CEOs with more dimensions of power are more competent in reducing the firm's tax burden. Further tests show that this positive relationship is strengthened by board gender diversity. This implies that CEO competence in tax avoidance increases as the proportion of female directors on the board increases.

Keywords: Tax avoidance, Effective tax rate, CEO power, Board gender diversity, Female director, Emerging market

INTRODUCTION

Accounting for income taxes is a component of financial accounting that encompasses the recognition of deferred tax assets and liabilities, along with income tax expenses. This process aims to capture both the current and anticipated tax implications of transactions. Its primary objective is to present a company's current financial position and performance with greater accuracy. From an

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academic research perspective, it involves assessing how financial reporting choices impact income taxes (Graham et al., 2012).

One of the central issues in accounting for income taxes is corporate tax avoidance, which encompasses the strategic arrangements made by companies to minimise their tax liabilities to the government (Hanlon & Heitzman, 2010). Nevertheless, it is noteworthy that, at least in the decades prior to the last two, research on tax avoidance has not received the attention it deserves. Earlier studies focused mainly on examining how firm characteristics such as size, capital structure and profitability affect the effective tax rate (Porcano, 1986; Shevlin & Porter, 1992; Zimmerman, 1983). Subsequently, research into the determinants of tax avoidance has gained momentum in recent years, particularly since Shackelford and Shevlin (2001) raised concerns about the limited empirical understanding of the variation in firms' tax avoidance behaviour across different situations. These studies have explored the influence of various firm attributes on tax avoidance, including earnings management (Cook et al., 2008; Dhaliwal et al., 2004), industry-specific tax expertise (McGuire et al., 2012), and managerial insider incentives (Armstrong et al., 2012; Desai & Dharmapala, 2006; Dyreng et al., 2010).

An effective approach to addressing tax avoidance involves analysing its root causes, primarily focusing on those responsible for planning and endorsing tax strategies. The pivotal figures in this context are the CEO and the board of directors, who play key roles in shaping high-level corporate decisions. The CEO serves as the top executive, overseeing corporate strategies and daily operations, while the board of directors, appointed by shareholders, governs the management, including CEO appointment and policy evaluation. Together, they exert the most significant influence on corporate tax strategy development and execution.

Empirically, there is a noticeable lack of empirical research examining the influence of CEO and board governance on tax avoidance, particularly in emerging markets. This research is motivated by the need to address this gap and examine these effects in the context of Malaysian firms. Given the central role of the CEO in tax planning and implementation, this study first assesses the relationship between the CEO and tax avoidance. Subsequently, the potential moderating effect of the board of directors on this relationship is examined to determine its significance.

In contrast to prior studies, which typically assess the influence of the CEO using a single dimension of CEO power (Al Mamun, 2016; Chee et al., 2017), our study explores this impact by employing a CEO power index. This index is constructed based on five dimensions of CEO power (CEO duality, CEO ownership, CEO founder status, CEO tenure and CEO education level) introduced

by Finkelstein (1992), which have not been utilised in previous tax avoidance research. In terms of the board governance factor, our study concentrates on examining the moderating effects of board gender diversity. This aspect is considered a crucial element that can contribute to enhancing the overall corporate governance framework within the country (Securities Commission Malaysia, 2018).

In general, the results provide evidence for the positive correlation between CEO power and tax avoidance. This suggests that CEOs who possess a greater number of power dimensions are more adept at reducing the firm's tax burden. Furthermore, the subsequent results show that board gender diversity serves as a moderating factor in the relationship between CEO power and tax avoidance. More specifically, the positive impact of CEO power on tax avoidance is significantly enhanced in firms with a higher proportion of female directors. This implies that board gender diversity acts as an effective governance factor that enhances the CEO's effectiveness in managing tax avoidance activities.

The study's findings will contribute to our understanding of the extent to which CEO power influences corporate tax decisions. The study's scope, which encompasses the examination of board gender diversity as a moderating factor, has the potential to offer valuable insights into the impact of female directors on this relationship. These findings hold the potential to augment the existing literature, particularly given the limited research on tax avoidance, particularly in developing countries. Furthermore, the use of a composite index of CEO power, consisting of five critical CEO power dimensions that, to our knowledge, have not been previously examined in earlier studies, will introduce fresh perspectives to the research area. From a theoretical standpoint, this study has the potential to expand our comprehension of agency and stewardship theories within emerging markets. It can shed new light on how the interplay between CEO power and board gender diversity in relation to tax avoidance can be concurrently explained by these two theories.

In addition to its contribution to research, the study's findings are relevant to both policymakers and investors. Given that tax revenues represent a significant portion of government revenues, government agencies, including tax authorities and policymakers, have an important role to play in ensuring that tax revenues are fairly and accurately aligned with corporate revenues. These findings can serve as a valuable reference for them in identifying board compositions that enhance corporate governance. Consequently, this study will provide valuable insights to these stakeholders as they work towards a more robust and effective regulatory framework to improve the tax system. Investors can also benefit

from the findings of this study. It provides insight into potential tax avoidance activities and the associated risks of investing in companies with weak corporate governance characteristics, thus serving as a valuable reference for both existing and prospective investors.

LITERATURE REVIEW

The Impact of CEO Power on Corporate Tax Avoidance

The CEO, as the highest-ranking executive in an organisation, plays a key role in shaping corporate strategy, vision, policies and culture to ensure the company's success and enhance shareholder value (Association of Chartered Certified Accountants [ACCA], 2021). This highlights the CEO's significant influence on corporate tax planning (Dyreng et al., 2010). This seems to signify a strong connection between CEO power and the extent of tax avoidance. The potential impact of CEO power on tax avoidance suggests that it is important to identify what constitutes CEO power.

To better understand CEO power, Finkelstein (1992) defines it as an individual's capacity to assert their will, especially in dealing with internal and external factors. The author further groups these factors into four main categories: CEO expert power, CEO ownership power, CEO structural power and CEO prestige power. Thus, CEO power is a multifaceted construct that encompasses various dimensions. This power allows CEOs to influence the strategic decisions of the company, including those related to tax planning and tax avoidance.

From a theoretical perspective, the relationship between CEO power and tax avoidance can be explained by two contrasting theories: agency theory and stewardship theory. Specifically, agency theory provides a good platform to explain entrenchment effects as a result of agent–principal conflicts between the CEO and shareholders (Jensen & Meckling, 1976). In other words, CEOs may utilise their power to prioritise their personal interests, potentially leading to conflicts with shareholders. As CEOs accumulate more power, they may be inclined to engage in tax avoidance activities that maximise their personal wealth, even at the expense of shareholders' interests. On the other hand, stewardship theory provides support for alignment effects when CEOs tend to act consistently with the interests of shareholders (Donaldson, 1990). These CEOs view themselves as stewards of the firm and prioritise long-term corporate success. In this context, CEOs may engage in tax avoidance to enhance corporate profitability and shareholder value.

To sum up, the choice of tax avoidance as a strategic option may be influenced by the CEO's perception of its alignment with the company's goals and shareholders' interests. Therefore, in the context of tax avoidance, irrespective of whether CEOs perceive themselves as agents of shareholders (entrenchment effects) or stewards of the firm (alignment effects), both theories imply that elevated CEO power is linked to increased tax avoidance. The underlying reasoning for this positive correlation is that, whether CEOs aim to safeguard shareholder interests or pursue personal gains, tax avoidance presents an advantageous means to achieve these objectives by enhancing profits.

Empirically, certain dimensions of CEO power have been considered more influential by researchers. This is particularly evident in the domains of ownership power (e.g., CEO founder status) and structural power (e.g., CEO-chair duality) (Saidu, 2019). For instance, various studies have identified CEO founder status as a primary indicator of CEO power (Adams et al., 2005; Abebe & Alvarado, 2013). However, rather than focusing on a single dimension of power, a subset of research delves into the collective impact of several essential power dimensions (Srinidhi et al., 2011; Tien et al., 2013). These studies suggest that relying on a single power dimension may not adequately represent the true influence of CEO power.

In the scope of researching the influence of CEO power on tax avoidance, the attention devoted by scholars to this area remains insufficient (Lee & Kao, 2020). While many dimensions of CEO power have been established as significant factors in the literature, only a few dimensions, such as founder status, compensation, and publicity, have been examined for their impact on tax avoidance. Moreover, these studies predominantly concentrate on a single dimension of CEO power (Al Mamun, 2016; Chee et al., 2017; Duan et al., 2018). Hence, prior studies offer limited evidence to support this phenomenon. Furthermore, these studies yield inconsistent results, with the relationship being either positive (Al Mamun, 2016; Duan et al., 2018), negative (Lee & Kao, 2020), or non-monotonic (Chee et al., 2017).

This study acknowledges the significance of CEO power as a multidimensional construct and seeks to contribute to this research area by examining the influence of multiple CEO power dimensions, including CEO founder status, CEO ownership, CEO duality, CEO tenure and CEO education level, on tax avoidance. While empirical evidence may be lacking, these dimensions have been chosen because they are the power dimensions that have often been proposed by scholars as crucial indicators of CEO power (Bhagat et al., 2010; Fetscherin, 2015; Finkelstein, 1992; Mio et al., 2016). By examining this comprehensive set of dimensions, the study aims to capture the diverse facets of CEO power and its

potential impact on tax avoidance, offering a holistic understanding of this intricate relationship.

Drawing inspiration from Srinidhi et al. (2011) and Tien et al. (2013), a composite CEO power index is employed to capture this effect. Notably, this composite index encompasses all four categories of CEO power as introduced by Finkelstein (1992). Specifically, CEO founder and CEO ownership fall under ownership power, CEO duality under structural power, CEO tenure under expert power, and CEO education under prestige power. While Finkelstein's categorisation provides a valuable framework, this focused approach is tailored to the unique context of the research, aiming to uncover how these dimensions collectively influence corporate tax avoidance practices. Given the scarcity of empirical evidence and the rationales underpinning agency and stewardship theories, we formulate the following hypothesis.

H1: CEO power has a positive effect on tax avoidance.

The Moderating Effect of Board Gender Diversity

The composition of board members could significantly influence a board's capacity to carry out its supervisory responsibilities. Consequently, selecting the right individuals to sit in the boardroom is crucial for enhancing the board's efficiency and effectiveness. In general, an effective board should harmoniously blend directors' attributes such as gender, experience, and other factors that align with the company's objectives. The presence of adequate diversity within a boardroom is a fundamental tool for elevating the quality of its decision-making processes (Securities Commission Malaysia, 2018).

According to the Corporate Governance Strategic Priorities report for 2017–2020 (Securities Commission Malaysia, 2018), which represents the government's efforts to strengthen corporate governance regulation in Malaysia, significant attention has been directed toward the issue of board diversity. Specifically, the government and the statutory body have given particular consideration to board gender diversity. The authorities have raised concerns regarding the slow progress in increasing the representation of female directors on boards. In fact, board gender diversity has been identified as one of the five priority strategies for enhancing the corporate governance system, with the primary objective of achieving a 30% female director representation on publicly listed firm boards by the end of 2022. This heightened focus on gender diversity underscores the government's recognition of this dimension as a pivotal factor in enhancing board effectiveness. Consequently, this study incorporates gender diversity in line with this perspective.

Prior literature links female directors' behaviour closely to the psychological aspects of females (Boussaidi & Hamed, 2015; Budi, 2019; Kagzi & Guha, 2018). Scholars argue that the presence of females in top management teams can yield various benefits for firms. According to Krishnan and Park (2005), females are more likely to exhibit a "feeling" cognitive style compared to males. This cognitive style, emphasising harmony, is expected to enable females to boost confidence among their peers, foster unity, prevent conflicts, encourage information and power sharing, promote democratic leadership, and confront challenges (Eagly & Johnson, 1990; Earley & Mosakowski, 2000; Hurst et al., 1989).

Female directors are also perceived to possess greater resilience than male directors, as they encounter more challenges on their path to directorship within organisations (Hurst et al., 1989). Within the corporate environment, where male directors often dominate, female directors are believed to possess a stronger mindset or psychological advantage (Budi, 2019). These factors collectively equip female directors with the necessary skills to navigate challenges and uncertainties.

Besides, females are generally perceived as more risk-averse than males, a perspective supported by both psychological and economic literature. For instance, a meta-analysis conducted by Byrnes et al. (1999), covering 150 studies on gender risk-taking behaviour, reveals that females are less inclined to engage in risk-taking activities, including risky experiments, gambling, and intellectual risk-taking. In the realm of management research, female directors and executives are also found to exhibit higher levels of risk aversion in various aspects. For example, female executives tend to demonstrate greater conservatism in financial reporting (Betz et al., 1989; Peni & Vähämaa, 2010).

Through the lens of agency theory, gender diversity serves as a monitoring mechanism aimed at mitigating agency conflicts between managers and shareholders. When the interests of both parties align, their common objective is profit-maximisation and enhancing shareholder value (Jensen & Meckling, 1976). In the context of tax avoidance, tax savings achieved through such strategies contribute to profit enhancement (Desai & Dharmapala, 2009). Consequently, female directors, in their pursuit of reducing agency conflicts, are inclined to support profit-maximising activities, which encompass tax avoidance.

However, as previously highlighted, indications suggest that female directors, characterised by their harmonious, resilient, risk-averse, and conservative traits, may be less inclined to engage in tax avoidance practices. If this holds true, then increased gender diversity may correlate with heightened agency conflicts, reduced tax avoidance, and lower profits. While this scenario may be

favourable from a tax authority perspective, it may not align with the interests of shareholders. Therefore, in the context of tax avoidance, female directors grapple with an ethical dilemma: on one hand, they must ensure the company pays its fair share of taxes to the government, while on the other hand, they must safeguard the interests of shareholders.

Concerning academic research, a few studies have explored the impact of board gender diversity on tax avoidance. These studies consistently reveal a negative association between board gender diversity and corporate tax avoidance (Boussaidi & Hamed, 2015; Lanis et al., 2015; Richardson et al., 2016). This suggests that the presence of female directors plays a significant role in reducing tax avoidance and implies that companies with female directors tend to pay a higher tax rate to the government. This seems to show that the response of female directors to tax avoidance decisions is influenced by their psychological state. Consequently, they may opt to avoid excessively aggressive tax avoidance practices, ensuring that firms contribute their fair share of taxes.

This suggests that gender diversity can function as an effective mechanism for diminishing the influence of the CEO in tax avoidance. Specifically, a higher percentage of female directors on the board is anticipated to weaken the CEO's effectiveness in pursuing tax-saving activities. In light of these insights, the following hypothesis is proposed.

H2: Board gender diversity moderates the relationship between CEO power and tax avoidance. Particularly, the higher the board gender diversity, the more negative the effect of CEO power on tax avoidance.

RESEARCH METHOD

Data and Sample

This study is performed based on non-financial companies listed on the Main Market of Bursa Malaysia between 2009 and 2019, comprising a maximum of 11 years of data for each company. Commencing the study from 2009 was an intentional choice to alleviate the impact of the 2008 global financial crisis, which caused a stock market decline in Malaysia (Bank Negara Malaysia, 2010). The period covered extends to 2019, the latest year available when the data was collected.

In terms of data collection, accounting data, including the components required to construct tax avoidance metrics and control variables, are obtained from the S&P Capital IQ database. Conversely, the data components used to construct the board gender diversity and CEO power metrics are manually collected from the companies' annual reports available on the Bursa Malaysia website.

Measurement of Variables

Dependent variables

In this research, the dependent variable is tax avoidance, the definition of which aligns with the framework established by Hanlon and Heitzman (2010). Tax avoidance, within this context, refers to activities aimed at reducing a company's tax liabilities, covering all transactions that have the potential to influence the company's officially reported tax obligations. To measure tax avoidance, this study uses two proxies, namely the book effective tax rate (ETRB) and the cash effective tax rate (ETRC). These are the two measures widely used in previous studies to capture the tax burden of companies in relation to their pre-tax income.

Specifically, ETRB is defined as total tax expense divided by pre-tax book income, while ETRC is measured as cash tax paid divided by pre-tax book income (Chen et al., 2010; Dyreng et al., 2008; 2010; Lennox et al., 2013; McGuire et al., 2012). The ETRB measures the extent to which top management is concerned about reducing taxes for financial accounting purposes (Dyreng et al., 2010). Thus, it captures managers' propensity for such tax avoidance measures. On the other hand, the ETRC quantifies the extent to which these activities are driven by managers' intention to minimise the actual cash tax paid (Dyreng et al., 2010). These two measures are collectively referred to by academics as effective tax rates. Higher tax avoidance is reflected in a lower effective tax rate.

Independent variables

CEO power

Based on the rationale given in "Data and Sample", CEO power is measured by a composite index, which consists of five dimensions of CEO power. These dimensions are CEO duality, CEO ownership, CEO founder, CEO tenure and CEO education. Specifically, these proxies are defined as follows:

1. CEO duality, coded as 1 if the CEO is also the chairman of the board and 0 otherwise.

2. CEO ownership, coded as 1 if the percentage of CEO ownership is higher than the sample median and 0 otherwise.
3. CEO founder, coded as 1 if the CEO is the founder of the firm and 0 otherwise.
4. CEO tenure, coded as 1 if the CEO tenure is higher than the sample median and 0 otherwise.
5. CEO education, coded as 1 if the CEO has a postgraduate degree and 0 otherwise.

These indicator variables are then combined to form an index of CEO composite power (Srinidhi et al., 2011; Tien et al., 2013). The index is calculated as the average of the five indicator variables. A higher value of the composite index indicates greater CEO power.

Board gender diversity

Commonly, gender diversity can be measured using two distinct methods. The first method involves creating an indicator variable to signify the presence of female directors on the board (Adams & Ferreira, 2009; Srinidhi et al., 2011). The second method quantifies gender diversity by calculating the percentage of female directors on the board (Boussaidi & Hamed, 2015; Lanis et al., 2015; Nielsen & Huse, 2010). In this study, gender diversity is assessed using the percentage of female directors on the board, rather than the indicator variable, which only reflects their presence. This measurement is defined as the ratio of the total number of female directors to the total board members (Nielsen & Huse, 2010). This variable will help determine whether the extent of female directors' representation on the board has an impact on tax avoidance.

Control Variables

Apart from the potential impacts of the independent variables, there are various firm-specific characteristics that might also influence tax avoidance. Frequently controlled for in tax avoidance models, these firm-specific characteristics encompass aspects such as firm size, financial leverage, capital intensity, inventory intensity, profitability and cash holdings. Consistent with prior research (Derashid & Zhang, 2003; Dyreng et al., 2010; Gupta & Newberry, 1997; Kim & Limpaphayom, 1998; Lazăr, 2014; McGuire et al., 2012; Richardson & Lanis, 2007), the control variables in this study are defined as follows. Firm size, proxied by total assets, is defined as the natural logarithm of total assets. Financial leverage, proxied by the debt-asset ratio, is defined as the ratio of long-term debt to total assets. Capital intensity is measured as the ratio of property, plant and equipment

to total assets. Inventory intensity is measured as the ratio of inventory to total assets. Profitability is represented by return on asset (ROA) and is calculated as the ratio of profit before interest and tax to total assets, lastly, cash holdings is defined as the ratio of cash and cash equivalents to total assets. The descriptions of all the variables are presented in Table 1.

Table 1
Description of variables

Variable	Description
Tax avoidance measures	
BOOK-ETR (ETRB)	The ratio of total tax expense to pre-tax book income.
CASH-ETR (ETRC)	The ratio of cash tax paid to pre-tax book income.
Independent variables	
CEO Power:	
CEO duality (DUALITY)	Dummy variable, equals 1 if the CEO also serves as chairman of the board, 0 otherwise.
CEO ownership (OWNER)	Dummy variable, equals 1 if the CEO ownership percentage is higher than the sample median, 0 otherwise.
CEO tenure (TENURE)	Dummy variable, equals 1 if the CEO tenure is higher than the sample median, 0 otherwise.
CEO founder (FOUNDER)	Dummy variable, equals 1 if the CEO is the founder of the firm, 0 otherwise.
CEO education (POSTGRAD)	Dummy variable, equals 1 if the CEO is a postgraduate holder, 0 otherwise.
CEO power (POWER5)	Average of the dummies of DUALITY, OWNER, TENURE, FOUNDER and POSTGRAD.
Board Gender Diversity:	
Female directors % (BFEMALE)	Board ratio of female directors to total board members.
Control variables	
Firm size (SIZE)	The natural logarithm of total assets.
Financial leverage (LEVERAGE)	The ratio of long-term debt to total assets.
Capital intensity (CAPINT)	The ratio of property, plant and equipment to total assets.
Inventory intensity (INVINT)	The ratio of inventory to total assets.
Profitability (ROA)	The ratio of profit before interest and tax to total assets.
Cash holdings (CASHHOLD)	The ratio of cash and cash equivalents to total assets.

Model Specifications

To examine the impact of CEO power on tax avoidance, this study regresses the tax avoidance measures against the CEO power measure and a set of control variables,

as shown in Equation (1). In this equation, TA_{it} represents the tax avoidance value for firm i in year t. TA is proxied by two tax avoidance measures, which are either the ETRB or the ETRC. A represents the constant term, which is the intercept of the equation. $SIZE_{it}$, $LEVERAGE_{it}$, $CAPINT_{it}$, $INVINT_{it}$, ROA_{it} and $CASHHOLD_{it}$ are control variables for firm size, financial leverage, capital intensity, inventory intensity, profitability and cash holdings for firm i in year t, respectively. *POWER5* is the composite index of CEO power, which is the average of five CEO power indicators (the dummies for CEO duality, CEO ownership, CEO founder, CEO tenure and CEO education). This measure allows us to test whether and how the degree of CEO power is associated with tax avoidance. ε_{it} represents the error term.

$$TA_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 LEVERAGE_{it} + \beta_3 CAPINT_{it} + \beta_4 INVINT_{it} + \beta_5 ROA_{it} + \beta_6 CASHHOLD_{it} + \beta_7 POWER5_{it} + \varepsilon_{it} \quad (1)$$

The next test is to examine the moderating effect of board gender diversity on the relationship between CEO power and tax avoidance. To test this effect, the composite index of CEO power is multiplied by the variable of board gender diversity to form an interaction term. This interaction term is then added to Equation (1) together with the main variable of board gender diversity to form Equation (2). In Equation (2), *BFEMALE* is the measure of board gender diversity, while *BFEMALE* × *POWER5* is the interaction term that is used to capture the moderating effect. This allows us to test whether the degree of board gender diversity is a factor in the relationship between CEO power and tax avoidance.

$$TA_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 LEVERAGE_{it} + \beta_3 CAPINT_{it} + \beta_4 INVINT_{it} + \beta_5 ROA_{it} + \beta_6 CASHHOLD_{it} + \beta_7 BFEMALE_{it} + \beta_8 POWER5_{it} + \beta_9 (BFEMALE \times POWER5)_{it} + \varepsilon_{it} \quad (2)$$

This study employs panel data analysis, which integrates observations from both cross-sectional (firms) and time-series (years) dimensions. This approach allows for more robust inferences, benefiting from a larger and more informative dataset, reduced collinearity among variables, and increased degrees of freedom (Gujarati et al., 2017). To address potential endogeneity concerns in panel regressions, a dynamic panel model known as the generalised method of moments (GMM) is applied for estimation. Specifically, the two-step system GMM approach mitigates endogeneity by incorporating the lagged dependent variable as an instrumental variable among the regressors.

RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 2 shows a summary of the descriptive statistics for all variables. To remove outliers, the data are winsorised at the 0.5% level (0.5 and 99.5 percentiles). Missing observations are excluded from the analysis. The average tax avoidance measured on the book (ETRB) and cash basis (ETRC) is 27.13% and 26.09% respectively, with a similar standard deviation close to 0.27%. This indicates that, on average, the sampled companies report effective tax rates that exceed the corresponding statutory tax rates, which were 25% from 2009 to 2015 and 24% from 2016 to 2019. These results suggest that companies pay a significant proportion of their pre-tax profits in taxes. However, higher effective tax rates don't necessarily mean that there is no tax avoidance. Tax avoidance is complex and goes beyond these rates. Nevertheless, researchers often use effective tax rates as a starting point to study tax practices and planning behaviour.

The study's control variables encompass firms of diverse sizes (SIZE), spanning total assets from RM12.06 million (10.48) to RM35,439.90 million (2.49). Other control variables, including financial leverage (LEVERAGE), capital intensity (CAPINT), inventory intensity (INVINT), cash holdings (CASHHOLD), and ROA, indicate that, on average, firms use 8% of debt for asset financing, exhibit a high degree of capital intensity with 53% of total assets allocated to property, plant, and equipment, dedicate 13% of assets to inventories, maintain approximately 10% of total assets as cash and short-term investments, and achieve a 5% return on assets.

Regarding the CEO power proxies, it is observed that, on average, 46% of the sample firms have a CEO who also serves as the firm's founder (FOUNDER), and 11% of them have a CEO who holds the dual position of chairman in the board (DUALITY). The findings also indicate that approximately half of the sample firms have CEOs with extended tenure (TENURE) and significant ownership stakes (OWNER), surpassing the sample median. In the case of CEO education (POSTGRAD), 18% of the sample firms have CEOs with postgraduate degrees. Concerning the CEO power index (POWER5), the results reveal that, on average, CEO power is at a moderate level. The results indicate that, on average, the sample firms' CEOs possess two out of five of these power dimensions. Lastly, the outcome on board diversity presents that, on average, the sample firms have around 10% of female directors on the board (BFEMALE).

Table 2
Descriptive statistics

Variable	Obs	Mean	S.D.	Min	Max
ETRB	6,174	0.2713	0.2702	0	1
ETRC	6,372	0.2609	0.2738	0	1
SIZE	8,873	5.8555	1.6169	2.4899	10.4756
LEVERAGE	8,873	0.0843	0.1088	0	0.5202
CAPINT	8,873	0.5281	0.3907	0	1.8049
INVINT	8,873	0.1347	0.1312	0	0.6131
CASHHOLD	8,873	0.1061	0.1087	0.0011	0.5386
ROA	8,873	0.0463	0.0979	–0.3329	0.3608
FOUNDER	5,747	0.4606	0.4985	0	1
DUALITY	5,747	0.1147	0.3186	0	1
TENURE	5,692	0.5156	0.4998	0	1
OWNER	3,301	0.4986	0.5001	0	1
POSTGRAD	6,555	0.1890	0.3338	0	1
POWER5	3,054	2.0239	1.0461	0	5
BFEMALE (%)	6,525	9.5691	11.3952	0	54.5455

Notes: Obs. denotes the number of observations. S.D. denotes standard deviation. The dependent variables are tax avoidance measures proxied by the ratio of total tax expense to pre-tax book income (ETRB) and the ratio of cash tax paid to pre-tax book income (ETRC), respectively. There are six control variables: SIZE is the natural logarithm of total assets; LEVERAGE is the ratio of long-term debt to total assets; CAPINT is the ratio of property, plant and equipment to total assets; INVINT is the ratio of inventory to total assets; CASHHOLD is the ratio of cash and cash equivalents to total assets, and ROA is the ratio of profit before interest and tax to total assets. There are 5 dimensions in measuring CEO power: DUALITY is a dummy variable equals 1 if CEO also serves as chairman of the board, 0 otherwise; OWNER is a dummy variable equals 1 if CEO ownership percentage is higher than the sample median, 0 otherwise; TENURE is a dummy variable equals 1 if CEO tenure is higher than the sample median, 0 otherwise; FOUNDER is a dummy variable equals 1 if the CEO is the founder of the firm, 0 otherwise; POSTGRAD is a dummy variable equals 1 if the CEO is a postgraduate holder, 0 otherwise. POWER5 is the average of all the 5 dummies. The moderating variable of board diversity is BFEMALE, the board ratio of female directors to total board members.

Correlation Matrix

The correlation analysis presented in Table 3 shows that, with the exception of the pair of independent variables, the correlation coefficients in this table fall within reasonable ranges, ranging from 0.0092 (for the relationship between INVINT and ROA) to 0.4981 (for the association between SIZE and LEVERAGE). Importantly, these coefficients do not exceed 0.80, indicating that there are no multicollinearity concerns in this study. ETRB and ETRC are closely related measures of tax avoidance, so a correlation of 0.8548 is expected.

Table 3
Correlation coefficients

Variables	ETRB	ETRC	SIZE	LEVERAGE	CAPINT	INVINT	CASHHOLD	ROA	POWER5	BFEMALE
ETRB	1									
ETRC	0.8548	1								
SIZE	0.0560	0.0613	1							
LEVERAGE	–0.0466	–0.0582	0.4981	1						
CAPINT	–0.2732	–0.2972	–0.1018	–0.0396	1					
INVINT	0.1792	0.1977	–0.1642	–0.1773	–0.2445	1				
CASHHOLD	–0.0288	–0.0205	–0.0624	–0.2463	–0.0674	–0.1802	1			
ROA	0.0468	0.0229	–0.0809	–0.1832	–0.0962	0.0092	0.3347	1		
POWER5	0.0363	0.0368	–0.0199	–0.0498	0.0439	0.0415	–0.0649	–0.0144	1	
BFEMALE	0.0757	0.0767	–0.0689	–0.0365	0.0388	0.0549	0.0036	0.0192	0.1463	1

Notes: The dependent variables are tax avoidance measures proxied by the ratio of total tax expense to pre-tax book income (ETRB) and the ratio of cash tax paid to pre-tax book income (ETRC), respectively. There are six control variables: SIZE is the natural logarithm of total assets; LEVERAGE is the ratio of long-term debt to total assets; CAPINT is the ratio of property, plant and equipment to total assets; INVINT is the ratio of inventory to total assets; CASHHOLD is the ratio of cash and cash equivalents to total assets, and ROA is the ratio of profit before interest and tax to total assets. There are 5 dimensions in measuring CEO power: DUALITY is a dummy variable equals 1 if CEO also serves as chairman of the board, 0 otherwise; OWNER is a dummy variable equals 1 if CEO ownership percentage is higher than the sample median, 0 otherwise; TENURE is a dummy variable equals 1 if CEO tenure is higher than the sample median, 0 otherwise; FOUNDER is a dummy variable equals 1 if the CEO is the founder of the firm, 0 otherwise; POSTGRAD is a dummy variable equals 1 if the CEO is a postgraduate holder, 0 otherwise. POWER5 is the average of all the 5 dummies. The moderating variable of board diversity is BFEMALE, the board ratio of female directors to total board members.

Regression Results

Table 4 reports the results of the baseline regression of Equation (1) from "Research Method" with two different proxies for tax avoidance, namely ETRB (column 1) and ETRC (column 2). In general, the results in columns 1 and 2 exhibit a high degree of consistency, as the size, direction and significance of the coefficients on the control variables remain unchanged whether ETRB or ETRC is used as the dependent variable. Specifically, the results show that firm size (SIZE), financial leverage (LEVERAGE), capital intensity (CAPINT), and cash holdings (CASHHOLD) have negative significant effects on tax avoidance, while inventory intensity (INVINT) and firm performance (ROA) have positive significant effects on tax avoidance.

The most crucial finding in these baseline models is the impact of CEO power on tax avoidance. Notably, POWER5 exhibits a strong, negative significance at the 1% level in both columns. The negative coefficients of POWER5 reflect that as CEO power increases, the company tends to pay a lower effective tax rate, indicating higher tax avoidance. This provides strong support for the first hypothesis which proposed a positive relationship between CEO power and tax avoidance. Moreover, these outcomes suggest that CEOs who possess more dimensions of power are more effective in pursuing tax avoidance. The results also indicate that CEOs with greater power tend to align with corporate objectives of profit maximisation by supporting tax avoidance over paying a fair share of taxes for social responsibility. These results align with the stewardship theory, where CEOs view themselves as stewards of the firm. Moreover, these results are to some extent consistent with the findings of Al Mamun (2016) and Duan et al. (2018), who also found a positive relationship, but only examined the effect based on a single dimension of CEO power (CEO founder and CEO publicity).

Table 4
Effect of CEO power on tax avoidance

Model	1	2
Lag (ETRB)	–0.0598*** (0.0000)	-
Lag (ETRC)	-	0.0239*** (0.0000)
SIZE	–0.0141*** (0.0000)	–0.0048** (0.0391)
LEVERAGE	–0.2364*** (0.0000)	–0.1543*** (0.0000)
CAPINT	–0.1833*** (0.0000)	–0.2638*** (0.0000)
INVIVT	–0.0219 (0.4434)	0.1029*** (0.0000)
CASHHOLD	–0.1774*** (0.0000)	–0.1217*** (0.0000)
ROA	0.1459*** (0.0000)	0.1280*** (0.0000)

(*Continued on next page*)

Table 4 (*Continued*)

Model	1	2
POWER5	–0.0138*** (0.0000)	–0.0159*** (0.0000)
N	1,645	1,747
J	370	370
AR (1)	–7.1797*** (0.0000)	–7.8541*** (0.0000)
AR (2)	–0.8487 (0.3960)	–0.2869 (0.7742)
SARGAN	355.8472 (0.3185)	339.3514 (0.5606)
Year	Yes	Yes
Industry	Yes	Yes

Notes: The dependent variables are tax avoidance measures proxied by the ratio of total tax expense to pre-tax book income (ETRB) and the ratio of cash tax paid to pre-tax book income (ETRC), respectively. There are six control variables: SIZE is the natural logarithm of total assets; LEVERAGE is the ratio of long-term debt to total assets; CAPINT is the ratio of property, plant and equipment to total assets; INVINT is the ratio of inventory to total assets; CASHHOLD is the ratio of cash and cash equivalents to total assets, and ROA is the ratio of profit before interest and tax to total assets. There are 5 dimensions in measuring CEO power: DUALITY is a dummy variable equals 1 if CEO also serves as chairman of the board, 0 otherwise; OWNER is a dummy variable equals 1 if CEO ownership percentage is higher than the sample median, 0 otherwise; TENURE is a dummy variable equals 1 if CEO tenure is higher than the sample median, 0 otherwise; FOUNDER is a dummy variable equals 1 if the CEO is the founder of the firm, 0 otherwise; POSTGRAD is a dummy variable equals 1 if the CEO is a postgraduate holder, 0 otherwise. POWER5 is the average of all the 5 dummies. All models include year dummies and industry dummies to control for unobserved year and industry effects. N denotes the number of observations while J is the number of instruments. AR(1) and AR(2) are diagnostic tests on first-order and second-order autocorrelation of the residual, respectively, while SARGAN is the Sargan test of over-identification on the instrumental variables. The figures in parenthesis are the *p*-value of the coefficients, and ***, **, and * denote the statistical significance at 1%, 5% and 10% levels, respectively.

In Table 5, we present the results for Equation (2) outlined in "Research Method" using ETRB (column 1) and ETRC (column 2) as measures of tax avoidance. Table 5 primarily focuses on the moderating effects of board gender diversity on the influence of CEO power on tax avoidance. The findings related to the control variables are generally consistent with those presented in Table 4, except for the significance levels of SIZE and INVINT, which have decreased when ETRC is the dependent variable. Concerning the moderating effects of board gender diversity, the coefficients for the interaction term of POWER5 × FEMALE are negatively significant at the 1% and 5% levels when ETRB and ETRC are the dependent variables, respectively. This suggests that board gender diversity enhances the positive relationship between CEO power and tax avoidance. In other words, as the proportion of female directors on the board increases, the positive link between CEO power and tax avoidance becomes more pronounced.

Surprisingly, this outcome contradicts the second hypothesis, which posited that a higher proportion of female directors would effectively mitigate the CEO's inclination towards tax avoidance. It suggests that board gender diversity

plays a crucial role in enhancing the impact of a powerful CEO on tax avoidance. This observation hints that female directors' response to tax avoidance decisions may be influenced by the CEO's level of power. Specifically, when the CEO's power increases, particularly through multiple power dimensions, as demonstrated in this study, female directors might be inclined to align with the CEO's approach to tax avoidance, potentially prioritising corporate profits over social responsibility. This finding supports the concepts of alignment effects and the stewardship theory, where agents' actions align with corporate objectives. Overall, this result offers valuable insights into the interplay between CEO power and board gender diversity.

Table 5
Moderating effect of board gender diversity

Model	1	2
Lag (ETRB)	–0.0627*** (0.0000)	-
Lag (ETRC)	-	0.0320*** (0.0000)
SIZE	–0.0186*** (0.0000)	–0.0019 (0.4811)
LEVERAGE	–0.1724*** (0.0000)	–0.1861*** (0.0000)
CAPINT	–0.1937*** (0.0000)	–0.2714*** (0.0000)
INVIVT	–0.0068 (0.8439)	0.0436 (0.1664)
CASHHOLD	–0.1687*** (0.0000)	–0.1216*** (0.0001)
ROA	0.1817*** (0.0000)	0.1264*** (0.0000)
POWER5	0.0005 (0.8605)	–0.0131*** (0.0000)
BFEMALE	0.0013*** (0.0002)	0.0012*** (0.0019)
POWER5 × BFEMALE	–0.0009*** (0.0000)	–0.0004** (0.0106)
N	1,645	1,747
J	370	370
AR (1)	–7.2593*** (0.0000)	–7.8408*** (0.0000)
AR (2)	–0.8885 (0.3742)	–0.2386 (0.8114)
SARGAN	355.0108 (0.3027)	340.7314 (0.5092)
Year	Yes	Yes
Industry	Yes	Yes

Notes: The dependent variables are tax avoidance measures proxied by the ratio of total tax expense to pre- tax book income (ETRB) and the ratio of cash tax paid to pre-tax book income (ETRC), respectively. There are six control variables: SIZE is the natural logarithm of total assets; LEVERAGE is the ratio of long-term debt to total assets; CAPINT is the ratio of property, plant and equipment to total assets; INVINT is the ratio of inventory to total assets; CASHHOLD is the ratio of cash and cash equivalents to total assets, and ROA is the ratio of profit before interest and tax to total assets. There are 5 dimensions in measuring CEO power: DUALITY is a dummy variable equals 1 if CEO also serves as chairman of the board, 0 otherwise; OWNER is a dummy variable equals 1 if CEO ownership percentage is higher than the sample median, 0 otherwise; TENURE is a dummy variable

equals 1 if CEO tenure is higher than the sample median, 0 otherwise; FOUNDER is a dummy variable equals 1 if the CEO is the founder of the firm, 0 otherwise; POSTGRAD is a dummy variable equals 1 if the CEO is a postgraduate holder, 0 otherwise. POWER5 is the average of all the 5 dummies. The moderating variable of board diversity is BFEMALE, the board ratio of female directors to total board members. All models include year dummies and industry dummies to control for unobserved year and industry effects. N denotes the number of observations while J is the number of instruments. AR(1) and AR(2) are diagnostic tests on first-order and second-order autocorrelation of the residual, respectively, while SARGAN is the Sargan test of over-identification on the instrumental variables. The figures in parenthesis are the *p*-value of the coefficients, and ***, **, and * denote the statistical significance at 1%, 5% and 10% levels, respectively.

SUMMARY AND CONCLUSION

This study investigates the influence of CEO power on tax avoidance among firms listed on the Main Market of Bursa Malaysia from 2009 to 2019. The analysis is conducted using unbalanced panel data, comprising 1645 and 1747 total firm-year observations when the dependent variables are the book effective tax rate (ETRB) and cash effective tax rate (ETRC), respectively. In contrast to previous research, this study assesses CEO power using a composite index derived from five dimensions: CEO duality, CEO founder, CEO ownership, CEO tenure and CEO education. To address potential endogeneity issues, all models are estimated using the GMM approach.

In the initial phase, the analysis reveals a negative association between CEO power and both tax avoidance indicators (ETRB and ETRC). This suggests that higher CEO power corresponds to lower tax payments to the government, aligning with the study's first hypothesis, which posits a positive relationship between CEO power and tax avoidance. Additionally, these results imply that CEOs wielding a broader range of power dimensions are more adept at tax avoidance strategies. Subsequently, the findings provide evidence supporting the influence of board gender diversity on the relationship between CEO power and tax avoidance. Specifically, the results indicate that board gender diversity amplifies the positive impact of CEO power on tax avoidance, contrary to the second hypothesis. This suggests that as the proportion of female directors on the board increases, the CEO's proficiency in tax avoidance grows.

Some firm-year observations were excluded from this study's analysis due to incomplete information, particularly on CEOs, including their ownership stake, year of appointment, founder position and education level, which could introduce some bias. However, this limitation is mitigated by the study's comprehensive coverage of a large number of companies across different industries in the main market from 2009 to 2019. In addition, it's important to note that this research does not examine the motivations of CEOs or directors in relation to tax avoidance. Future research could investigate whether the intentions of these parties behind

tax avoidance are solely for the benefit of the company or for other purposes, thus shedding light on the motives of the key influencers in tax planning decisions.

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