Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 7, 260-276
2025
Publisher: Learning Gate
DOI: 10.55214/25768484.v9i7.8564

The effect of corporate tax avoidance strategies in Malaysia through financial characteristics and corporate governance mechanisms

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Abstract: Corporate tax is one of the fundamental sources of revenue for governments. This study investigates the subject of corporate tax avoidance, examining the relationship between certain financial attributes of a company—namely profitability and leverage—and corporate governance attributes, including board size, director competency, the presence of female directors, director remuneration, and CEO duality. The focus is on companies listed on the main market of Bursa Malaysia. The study employs panel data from 300 publicly listed Malaysian companies, specifically from their annual reports and financial databases for the years 2021, 2022, and 2023. The investigation utilizes panel data regression with Panel Corrected Standard Errors to account for autocorrelation and heteroscedasticity, based on agency theory and tax planning theory. The results indicate a significant negative relationship between profitability—measured by return on equity and the effective tax rate ($\beta = -0.001$, $p = 0.000$)—and the effective tax rate. Conversely, leverage shows a significant positive association with the effective tax rate ($\beta = 0.175$, $p = 0.000$). These findings suggest that key financial and governance factors significantly influence firms' tax burdens. Policymakers and corporate regulators aiming to promote ethical tax governance in developing markets can derive valuable insights from these results.

Keywords: *Board structure, CEO duality, Company governance, Corporate tax avoidance, Effective tax rate, Leverage, Malaysia, Profitability.*

1. Introduction

Corporate tax revenues play a crucial role in national development by funding vital public services such as infrastructure, healthcare, and education. The continuous trend of corporate tax avoidance (CTA), where companies leverage legal provisions to reduce their tax responsibilities, poses serious challenges for public trust and financial stability in developing countries such as Malaysia [1, 2]. While tax avoidance is technically legal, it raises significant moral and governance issues, especially in contexts marked by budget constraints and economic inequality.

The 2023 tax-to-GDP ratio in Malaysia stood at 11.8%, revealing significant systemic inefficiencies in revenue collection, especially when compared to the regional average [3]. Even with attempts to enhance tax compliance through regulatory changes such as the Malaysian Code on Corporate Governance (MCCG) 2021, many companies listed on Bursa Malaysia continue to engage in aggressive tax planning. Ganesan, et al. [4] and Jiang, et al. [5] highlight that the gap between what legislation expects and what happens suggests that the internal dynamics of a firm, especially its financial and governance structures, significantly impact tax-related decisions. Leverage and profitability are two financial indicators that many people consider crucial when discussing tax evasion. Profitability allows businesses to reduce their tax burden, while leveraging debt can lead to tax savings by making interest costs deductible. Nonetheless, the extent of internal governance might influence the degree to which these qualities exert their impact. In the absence of robust board oversight, even profitable companies may pursue more aggressive strategies [1, 6]. In a similar vein, even with the benefits that come from

History: Received: 21 April 2025; Revised: 6 June 2025; Accepted: 10 June 2025; Published: 3 July 2025
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debt-related tax shields, companies with high leverage might avoid these strategies when under the watchful eye of creditors [7, 8].

In governance, it's crucial to consider various board characteristics such as its size, the skills of its members, gender diversity, compensation structures, and whether the CEO also serves as the chair. These factors play a large role in ensuring compliance and accountability. Although more directors on board might face coordination challenges that could lead to decreased efficiency, on the other hand they have the potential to enhance monitoring capabilities. Female directors often bring a heightened sense of ethical awareness and a tendency toward risk aversion, which can lead to a reduction in aggressive tax strategies [9, 10].

The effectiveness of a board in analyzing and managing complex tax planning strategies is elevated when its directors have impactful financial judgment [4, 6]. Nonetheless, the organization plays an important role in determining the effectiveness of governance methods implied. In Malaysia, the independence of boards might be at risk because of the corelated elements such as significant concentration of ownership, the prevalence of family run businesses, and the occurrence of overlapping leadership roles [5]. The focus of power, particularly in the case of CEO duality, has been linked to losing sight governance. This situation complicates the board's ability to scrutinize managerial decisions, especially those related to taxes [2].

Although a lot of research on CTA in developed markets with strong governance structures, there remains a significant gap in empirical studies focusing on emerging economies like Malaysia. Additionally, the connection between governance structures and financial performance, especially considering recent developments such as MCCG 2021, has not been thoroughly explored. This research addresses an important gap by exploring the direct effects of various financial factors such as profitability and leverage on CTA, specifically through the lens of the effective tax rate (ETR). It also further explores governance attributes, such as board size, director competency, female representation on board, director remuneration, and CEO duality on executive roles. To study this further, a total panel data from 300 public listed companies in Malaysia was analyzed, covering the period from year 2021 to 2023. The study estimates the impact of internal factors on the ETR by employing Panel Corrected Standard Errors (PCSE) regression which is a method that takes into consideration the unique characteristics of each firm.

This research contributes to the broader discussion surrounding tax ethics and governance by offering empirical insights grounded in the regulatory and cultural context of Southeast Asia. The findings offer valuable insights for regulators, investors, and legislators who are aiming to improve tax accountability and transparency within Malaysian corporate practices.

2. Literature Review

CTA involves employing legal ways to minimize a company's tax obligations while staying compliant. Although this practice is legal, they flag alarming ethical concerns about how companies should be held accountable and their responsibilities to society. In developing economies such as Malaysia, tax avoidance presents a significant challenge to maintaining fiscal sustainability, especially when the tax base is limited and enforcement mechanisms are still evolving [4]. Consequently, researchers have been paying more attention to the factors at the firm level, particularly financial indicators and governance mechanisms, which are seen as crucial influences on corporate tax planning. Profitability has always been seen as a key factor in how companies approach their tax planning. It highlights a firm's capabilities to generate financial resources internally, which eventually is used to shape their tax strategies. Umar, et al. [7] suggest that companies that are more profitable have better technical and financial resources to take part in intricate tax minimization strategies. Nasir, et al. [1] back up this point of view by saying that Malaysian companies that make more money usually try to avoid paying taxes in a more planned way. Putri, et al. [6] supports this assumption by saying that successful businesses mostly invest in legal structure and good tax advise services to lower their tax rates. However, just because a business is profitable doesn't mean it will necessarily adopt aggressive

DOI: 10.55214/25768484.v9i7.8564

tax strategies. Nerantzidis, et al. [11] highlights that businesses dedicated to ESG principles may opt to reduce their tax avoidance tactics to protect their reputation and uphold the trust of their stakeholders. This highlights that although profitability offers the resources, ethical and reputational factors can shape how it truly impacts tax behavior. Ganesan, et al. [4] also suggest that the dynamics of governance influence the relationship between profitability and tax avoidance. When boards are made up of skilled and independent directors, they tend to keep aggressive tax practices in check, even in companies that are doing well financially.

Hooy and Phua [10] indicate that having female directors can lead to more cautious tax decision-making, especially in companies that are quite profitable, emphasizing the importance of gender diversity in leadership roles. Moreover, the specific conditions of different sectors and regulations influence the way profitability affects tax practices. For instance, businesses in sectors that are closely watched, such as finance and manufacturing, may avoid bold strategies to maintain their credibility [12]. The MCCG 2021 guidelines emphasize the significance of governance in decision-making, highlighting the ethical dimensions of tax planning aimed at profitability [5, 13]. Hence, while making a profit allows for the possibility of avoiding taxes, how much that happens depends on the quality of governance, the values of the leadership, and the level of external oversight. The path a company approaches its tax strategy is at large influenced by the element of its financing that comes from debt. Moreover, as interest payments on debt can be deducted from taxable income, companies may consider using debt to avoid taxes. Investigation conducted by Umar, et al. [7] and Putri, et al. [14] further supports this link, proposing that as companies increase their debt, they become more driven to control their interest expenses and pursue techniques to cut their taxable income all through several evasion strategies.

Idris and Natalylova [15] claim that the financial stress that comes with excessive indebtedness often makes businesses use more aggressive tax methods. Wulandari [16] also discuss about how businesses that use leverage want to boost their post-tax profits by using all the deductions they can. However, leverage has multiple effects, however, the requirement for regulations and transparency, the impact may be less significant. Safiinatunnajah and Setiyawati [8] and Wulandari [16] investigated and discovered that relying too heavily on debt can make people more likely to be observed, particularly considering governance frameworks such as MCCG 2021, which may make people less likely to adopt aggressive tax strategies. According to Kurniasih and Sari [17] leverage decisions are frequently related to larger capital structure plans which in turn influences how others plan their taxes. Interestingly, these observations demonstrate that leverage has two sides. On the other hand, it provides companies with opportunities to reduce their tax burdens, but on the other hand, it also brings about regulatory risks that could limit their ability to engage in avoidance strategies. The findings indicate that leverage and profitability are important factors in avoiding taxes, but their effects depend on the rules and the way the government works.

Success allows business to manage their taxes, and leverage motivates them to do so, however, neither of them acts independently. To examine if financial traits lead to intelligent or risky tax strategies, it's necessary to consider thoroughly the board's skills, the need of ethical leadership, and the significance of external assessments. In Malaysia's ever-changing political and economic climate, it's imperative to recognize how both variables affect each other to make effective choices about taxation and business strategy in general.

3. Research Framework

This study is based on agency theory and examines the way disagreements between management and shareholders can lead to practices, such minimizing taxes, that may be advantageous to the business but not necessarily in the most beneficial interests of shareholders. The research approach has two main parts: the financial parameters and Corporate Governance (CG) structures. It is assumed that both directly impact how companies avoid paying taxes. The ETR shows the amount of tax a business really pays compared to how much money it makes.

Leverage and profitability are two financial factors that are looked at because they are thought to provide either the resources or the motive for using tax-minimization measures. When it comes to governance, the situation such as CEO duality whereby the CEO is also a board member, the number of members of the board, the qualifications of the directors, the gender diversity on the board, and the compensation packages of the directors are all analyzed to discover whether they may influence or hinder management's ability to decide on tax-related choices. The study additionally addresses management ownership as a moderating element that is likely to change the strength or direction of these correlations between governance and tax avoidance. This model in Figure 1 gives us a systematic way to look at the way governance practices, and financial factors work together to change how Malaysian listed firms pay their taxes. The study makes twelve hypotheses to investigate these dynamics. The first seven (H1–H7) focus on the direct links that connect these variables as illustrated in Figure 1.

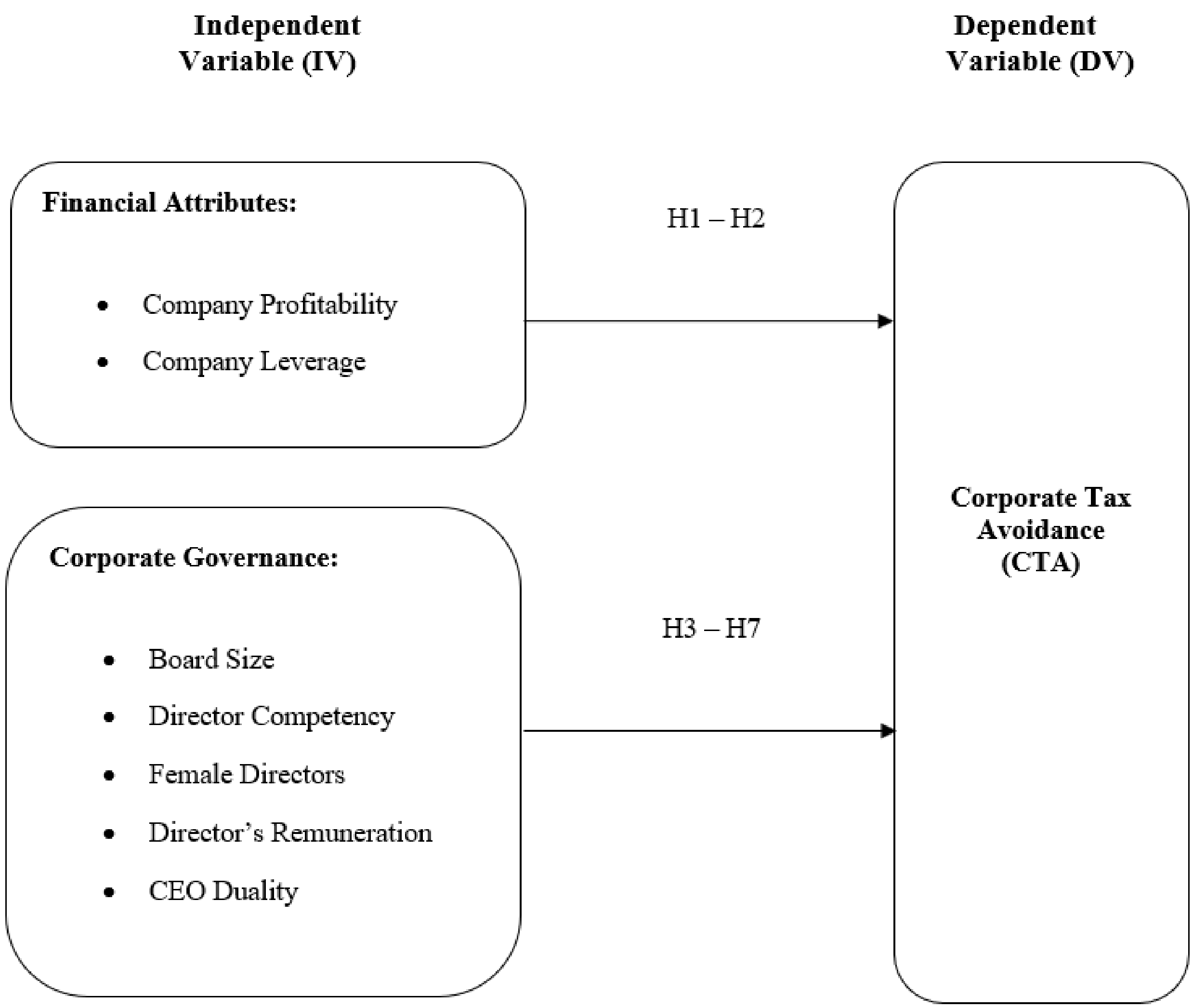

Figure 1.
Research Framework of the Study.

4. Hypotheses Development

CTA remains to be a significant problem in developing countries such as Malaysia, where company taxes are a key source of national income. Scholars continue to debate about the way economic and governance frameworks that companies have impact on the way they manage taxes. This study uses both theoretical and empirical data to gain insight into how important aspects including profitability, leverage, board size, director competency, female board representation, director salary, and CEO duality affect CTA. The study will solely look at the direct effects of these financial and governance elements on tax behavior, leaving out any moderating or mediating factors. The outcome will facilitate the observation of the impact of each independent variable on tax behaviour. This will enable the study to evaluate hypotheses H1 to H7.

4.1. Profitability

A company's ability to avoid paying taxes depends heavily on the capacity of its earnings. Malik and Munir [18] suggest that decreasing revenue is one of the primary factors that makes it difficult to evade taxes. When company's profits drop, it may not be worthwhile it to spend money on complicated tax procedures to avoid paying taxes. As a result, companies that make less money are less likely to take steps to avoid paying taxes. However, empirical evidence strongly suggests that there is a strong link between avoiding taxes and making money. The primary suggestion is that businesses who do well can cut their taxes to keep more of their profits after taxes. Further support for this position comes from Indriani [19] who, building on the framework of Lanis and Richardson [20] highlights that economically successful firms are better positioned to exploit tax havens, transfer pricing, and deferred tax mechanisms. Similarly, Bosun-Fakunle, et al. [21] referencing [22] found that profitable firms often display higher deviations in their ETRs, reflecting more active engagement in tax minimization tactics. However, the literature is not unanimous. While it's generally accepted that taxation compliance is driven by profitability, numerous investigations have revealed that there is no statistically significant association between the two. Yusrizal, et al. [23] and Jannah and Dimyati [24] for example, propose that company tax evasion might not be only determined by profitability. Rather, the findings suggest that firm specific attributes, regulatory supervision, and governance quality have greater effects on tax strategy development. This perspective is echoed by Fahmi and Naibaho [25] and Hossain, et al. [26] who, along with Frank, et al. [27] emphasize the moderating impact of managerial incentives and control systems.

The divergence in findings implies a context-dependent association between profitability and tax avoidance. Profitability may not translate into greater tax aggressiveness in regulatory environments with high enforcement standards. Conversely, in jurisdictions with weak tax enforcement, profitability can serve as a catalyst for more complex avoidance practices.

H_1: There is a positive relationship between profitability and corporate tax avoidance.

4.2. Leverage

Leverage is a way to plan for taxes and a financial strategy. Debt-to-equity or debt-to-asset ratios are two methods to find out the amount of leverage companies possess. It reveals that a business uses debt to obtain funds, which could assist them avoid paying taxes because interest payments are tax-deductible presently. Handoyo, et al. [28] and Kasmir (cited in Oktagiani [29]) state that leverage is the amount of funds that a company borrows to buy its assets. From a tax planning point of view, significant leverage can help businesses lower its taxable income by letting companies deduct interest. This "tax shield" hypothesis has been validated by empirical findings from Swingly and Sukartha [30] all of whom confirm that firms with higher debt levels tend to engage in more aggressive tax planning strategies. However, some research shows that there is either no relationship or a negative one between leverage and CTA. Irawan, et al. [31] argue that creditors and regulators will most definitely keep an eye on companies that have a lot of debt. Thus, making it challenging for those companies to employ

ISSN: 2576-8484
Vol. 9, No. 7: 260-276, 2025
DOI: 10.55214/25768484.v9i7.8564

illegal ways to evade paying taxes. Supporting this further, Jingga and Lina [32] emphasize that debt can act as a constraint on managerial behavior by increasing external monitoring.

Moreover, in multinational enterprises, leverage may be strategically used to exploit cross-border tax rate differentials, as indicated by Ali, et al. [33] and Desai and Dharmapala [34]. According to Yahaya and Omotola [35] the governance ecology and investor supervision have a moderating effect on whether leverage promotes or discourages tax aggressiveness. Given these mixed results, it is evident that the impact of leverage on CTA is nuanced and influenced by contextual variables such as governance strength, industry norms, and regulatory frameworks.

H_2: There is a positive relationship between leverage and corporate tax avoidance.

4.3. Board Size

The number of directors on a company's board is referred to as board size, which is a central component of CG and has been widely analyzed for its impact on ethical practices, including tax-related decisions, as well as overall firm performance. Several scholars, including Maruhun, et al. [36]; Shamsudin, et al. [37] and Ahmed Sheikh, et al. [38] emphasize the benefits of having smaller boards, which are believed to enhance monitoring effectiveness, facilitate quicker decisions, and support more efficient communication. On the contrary, larger boards have been associated with greater CTA, as demonstrated in the work of Lanis and Richardson [39]. Larger boards may not be able to effectively oversee things since they are unable to manage opposing interests, make sure all parties are accountable, and maintain everyone working together effectively. If the number of boards increases, their internal control systems may get worse, which could unintentionally make it easier for taxpayers to evade paying Hossain, et al. [40] and Bash and Zoghlami [41] are two other scholars who disapprove with this view. They say that bringing considerable number of various individuals on a board with various experiences and abilities may make governance stronger, oversight greater, and transparency higher, especially because of concerns about reputation. There is still no clear answer, but more and more people are realizing that board size doesn't work alone. It interacts with other governance factors like independence, professional experience, and power to make decisions which influence the way companies formulate their taxes.

H_3: There is a positive relationship between board size and corporate tax avoidance.

4.4. Director Competency

Director competency is an essential governance characteristic that influences strategic oversight and ethical integrity in corporate decision-making. While some studies, such as those by Martins and Omoye [42]; Oshinowo, et al. [43] and Novita and Herliansyah [44] report an insignificant correlation between director competency and tax avoidance, others highlight its critical role in monitoring financial practices. According to Jannah and Dimyati [24] and Fama and Jensen [45] competence play an important role in overlooking administrative decisions, especially in areas that can be easily manipulated, such as tax planning. Primarily on the note that the quality of board is derived from their effective contribution to the success of the company. Additionally, to reduce tax aggression, development of CG standard is contributed by board of directors that are capable and independent [18]. These data suggest that competency alone might not affect how people contribute their taxes, but when coupled with other board traits like independence, size, and diversity, it can change how businesses prepare their taxes.

H_4: There is a positive relationship between director competency and corporate tax avoidance.

4.5. Female Directors

More and more individuals are recognizing the significant influence that gender diversity, particularly the inclusion of female directors, can have on the results of CG. Several studies, such as those by Suleiman [46]; Khaoula and Ali [47] and Stanley and Widianingsih [48] indicate that having female board members does not seem to significantly impact CTA. Reasons include tokenism,

ISSN: 2576-8484
Vol. 9, No. 7: 260-276, 2025
DOI: 10.55214/25768484.v9i7.8564

entrenched male-dominance in board decision-making, and insufficient representation. On the other hand, some scholars believe that having female directors leads to better oversight, reduces risk-taking, and promotes ethical behavior. Among these scholars are Anggraeni and Kurnianto [49] and Hidayat and Zuhroh [50] as well as Lanis and Richardson [20]. The findings of the study support the idea that women contribute positively to risk assessments and strategic discussions, ultimately leading to better governance quality [51]. Nonetheless, the effectiveness of female directors appears to depend on the proportion of their representation. Badiana and Kusuma [52] note that only beyond a critical mass can female directors exert substantial influence on governance decisions, including those related to tax strategies.

H_5: There is a positive relationship between female directors and corporate tax avoidance.

4.6. Director Remuneration

Directors' remuneration is increasingly scrutinized for its role in shaping risk-taking behavior and long-term strategy. Akinyomi, et al. [53]; Ebimobowei [54] and Razali, et al. [55] argue that the structure of remuneration, especially the mix between cash and non-cash components can incentivize or deter aggressive tax planning. In the Malaysian context, evidence shows that higher cash remuneration is positively linked with tax planning, while non-cash incentives (e.g., stock options) reduce the propensity for aggressive behavior. The absence of regulatory caps on directors' pay may further encourage tax minimization efforts to justify elevated compensation.

H_6: There is a positive relationship between the director's remuneration and corporate tax avoidance.

4.7. CEO Duality

The trend of CEO duality, in which the roles of the CEO and board chair merge, raises concerns about board independence and the effectiveness of governance monitoring in the company. Salihu and Kawi [56]; Bosun-Fakunle, et al. [21] and Akinyomi, et al. [53] draw attention to the fact that when CEOs also take on the role as a of board chairman, the absence of monitoring can result in heightened tax aggressiveness. On the other hand, CEO duality could enhance the consistency of tax strategies by making decision-making more efficient and aligned to actual needs of the company [49, 57]. Examples of contextual governance factors that help reduce the impact of having a dual chief executive officer on CTA are board independence and ownership structure.

H_7: There is a positive relationship between CEO duality and corporate tax avoidance.

5. Research Methodology

This quantitative study aims to explore seven hypotheses that examine the relationships between CTA and several independent variables, including board size, profitability, leverage, director competency, the presence of female directors, directors' compensation, and CEO duality. This study centers around CTA as its main topic. Rana, et al. [58] and Creswell and Creswell [59] highlights their focus to examine how the financial metrics and governance measures identified influence tax avoidance strategies in publicly traded companies in Malaysia. This study used the audited annual reports, CG declarations, and financial statements from companies listed in the FTSE Bursa Malaysia KLCI Index (FBMKLCI) between 2021 and 2023 as secondary data. According to Almansour, et al. [60] and Hair Jr, et al. [61] this data and information are publicly available and adhere to Bursa Malaysia's disclosure criteria which further ensures that the reports are trustworthy and consistent for everyone concerned.

5.1. Sampling Technique and Size

This research employs purposive sampling which means that companies are chosen based on specific criteria that have been established beforehand. The criteria involve having detailed annual reports, maintaining a consistent listing status, and ensuring there is CG information available. The samples were categorized the sample into high, medium, and low segments according to the capital size of the companies. This classification was based on an original population of 759 companies that were listed as of March 31, 2022. The study selected between 120 and 150 businesses from each of these categories, ensuring a proportional representation. Following the guideline proposed by Sekaran [62] the goal of this analysis is to gather at least 300 observations within a single year. This is done to ensure that our findings are applicable in a broader context and that we have enough statistical strength to support our conclusions.

The dataset comprises an unbalanced panel of 900 firm-year observations spanning the years 2021 to 2023. Secondary data was collected from published annual reports, financial statements, CG disclosures, and commercial databases. To ensure accuracy, data on board structure, remuneration, CEO duality, and director qualifications were manually extracted from corporate disclosures.

5.2. Variable Measurement

5.2.1. Dependent Variables

There are two representations that are used to measure the dependent variable, which is the CTA.

Effective Tax Rate (ETR): Total Tax Expense (TTE) / Pre-Tax Earnings (PTE)

A lower ETR means that companies are avoiding taxes more, which is also what other studies have found [2, 4]. To test the hypothesis, the ETR values are multiplied by -1.

5.2.2. Independent Variables

Each hypothesis from H1 to H7 corresponds to one of the following independent variables:

1. H1 (PRO): The profitability measured as net income divided by market value of equity.
2. H2 (LEV): The leverage represented by debt-to-equity ratio.
3. H3 (BOSIZE): The board size measured as the number of directors in the company.
4. H4 (DCOMP): The director competency, a dummy variable (1 = background in finance/accounting, 0 = otherwise).
5. H5 (FEMALE): The female director presence, a dummy variable (1 = presence, 0 = absence).
6. H6 (DREM): The total directors' remuneration (salary, fees, allowances).
7. H7 (CEODUAL): The CEO duality, a dummy variable (1 = CEO also chairs board, 0 = otherwise).

The model equation is: $CTA = \beta 0 + \beta 1FEMALEit + \beta iPROit + \beta iLEVit + \beta iBOSIZEit + \beta iDCOMPit + \beta iDREMit + \beta iCEODUALit + \varepsilon it$

To control for firm-specific characteristics, the following variables are included the company size which the natural logarithm of total assets, the company age which is the years since its incorporation and lastly the number of employees which is the total workforce, considered due to its influence on strategic capacity and governance dynamics. The factors were chosen based on their known importance in influencing or altering the effects of CTA [20, 63].

5.3. Analytical Strategy

To analyze the relationship between independent variables and CTA, the study uses PCSE regression. PCSE is selected over traditional Ordinary Least Squares (OLS) and fixed/random effects models due to its superior handling of heteroscedasticity, cross-sectional dependence, and serial correlation. Diagnostic tests namely the Breusch-Pagan LM test and Wooldridge test, confirmed the occurrence of heteroscedasticity and autocorrelation and thus, further validating the use of PCSE. All analyses were performed using Stata 18.0, and robust checks included alternative ETR specifications and the exclusion of outlier firms. This research method assesses the direct impact of financial and governance factors on tax avoidance that is methodologically solidified, comprehensive, and systematic. By leveraging high-quality data, validated metrics, and appropriate statistical techniques, the framework ensures valid and interpretable results that contribute meaningfully to both academic research and policy formulation in the Malaysian context.

6. Empirical Findings and Interpretations

The empirical results and interpretations focus on examining the direct effects of CG structures and financial indicators on CTA among Malaysian publicly listed companies. The study centres on companies listed on the FTSE Bursa Malaysia KLCI Index from 2021 to 2023. The proxy for tax avoidance is the ETR, where a lower ETR reveals a higher scale of tax evasion. The exploration below provides a sequential interpretation of descriptive statistics, correlation results, and regression outcomes, with each result mapped to the corresponding hypothesis from H1 to H7.

6.1. Descriptive Statistics Analysis

The descriptive statistics focused exclusively on direct relationship between the IVs which are profitability, leverage, board size, director competency, female directors, director remuneration, and CEO duality, and the DVs, CTA, proxied by the ETR. The data in Table 1 and Table 2 comprises 663 company-year observations for public listed firms in Malaysia from year 2021 to 2023.

Table 1.
Descriptive Statistic of the Dependent Variables (DVs).

Variables	Obs.	Mean	Min.	Max.	Std. Dev.
ETR	663	0.235	0.00	0.93	0.13

Note: ETR = Effective tax rate.

Table 2.
Descriptive Statistic of the Independent Variables (IVs).

Variables	Obs.	Mean	Min.	Max.	Std. Dev.
ROE	663	10.563	-29.3	187.64	18.67
LEV	663	0.181	0.00	0.66	0.16
BOSIZE	663	8.189	4.00	15.00	2.04
DCOMP	663	0.311	0.00	1.00	0.15
FEMALE	663	0.246	0.00	1.00	0.13
DREM	663	7.365	0.12	96.60	9.84
CEODUAL	663	0.074	0.00	1.00	0.26

Note: ROE = Profitability returns on equity; LEV = Leverage; BOSIZE = Board size; DCOMP = Director competency; FEMALE = Female director; DREM = Director's remuneration; CEODUAL = CEO duality.

The ETR in Table 1 has a mean of 0.235, signalling that businesses on average pay 23.5% of their earnings as tax. The minimum ETR is 0.00 and whereby the maximum is 0.93. Alongside with a standard deviation of 0.13, it reflects considerable heterogeneity in tax burdens. These variations suggest differing levels of tax planning or avoidance strategies among firms, which directly ties to CG and financial performance attributes. Profitability measured as return on equity (ROE) in Table 2, averages 10.56%, ranging from -29.3% to 187.64%, highlighting significant disparities in firm performance. This variability can directly influence a company's ability and motivation to participate in income tax evasion. More profitable firms often have more resources to implement strategic tax planning. Leverage, or the debt-to-assets ratio, averages 0.181, suggesting that Malaysian firms typically finance about 18% of their assets via debt. This is relevant as debt allows firms to benefit from interest deductibility, potentially lowering ETRs. Board size averages at 8.19 directors, which falls within governance norms, while female board representation averages 24.6%, indicating growing board diversity. Director competency (those with financial/accounting backgrounds) shows a mean of 0.311, and director remuneration averages RM7.36 million, with a wide range from RM0.12 to RM96.6 million, potentially indicating diverse incentive structures. CEO duality, present in only 7.4% of firms, reflects limited adoption of combined leadership roles in line with Malaysia's governance code.

Collectively, these descriptive metrics from Table 1 and Table 2 form a baseline interpretation of how economic and governance considerations may directly impact taxation behaviour. Lower ETRs linked to higher profitability, greater leverage, and director incentives are consistent with hypotheses that these IVs influence CTA.

6.2. Correlation Analysis

The Pearson correlation matrix is presented in Table 3 below that guides the preliminary understanding of direct associations before regression analysis. The correlation analysis assesses the strength and direction of associations between the dependent variable with the ETR as representing CTA and key IVs including profitability, leverage, board size, director competency, female directors, director remuneration, and CEO duality. The correlation coefficient of 0.207 shows that leverage (LEV) has the strongest positive relationship with ETR in Table 3. This suggests that businesses with higher leverage often face larger tax burdens. While leverage is connected to tax benefits because interest payments can be deducted. This dataset also further indicates that the companies with high levels of debt might face tighter regulatory oversight. This then causes the company to restrict the ability to engage in bold tax planning strategies. Fahmi and Naibaho [25] noted that companies carrying more debt often find themselves dealing with rising tax obligations due to increased scrutiny or reduced flexibility. This aligns with what they discovered.

The presence of female board members shows a positive correlation ETR (r = 0.081). This indicates that companies with more women in leadership roles might engage in less tax evasion, likely due to the impact of ethical governance practices. This supports the findings of Hidayat and Zuhroh [50] which suggest that having gender diversity on boards of directors tends to reduce aggressive tax behavior. There seems to be a positive relationship between the number of employees and the effective tax rate, with a correlation coefficient of 0.082. This signifies that businesses with greater workforces might experience higher tax compliance, likely due to the added complexity of their operations and the greater scrutiny they encounter. Bachas, et al. [64] stressed that a non-linear relationship between company size and ETR in various global contexts, in which suggests that their results align with this observation.

On the contrary, Profitability (ROE) in Table 3 reveals a weak negative correlation with ETR (r = -0.059) which indicates that the more profitable businesses may avoid more taxes, while the correlation requires statistical backing. This supports strategic tax minimization observed in profitable firms as suggested by Fahmi and Naibaho [25]. CEO duality (CEODUAL) and managerial ownership (MO) also show negative correlations with ETR (r = -0.048 and -0.055 respectively), indicating potential for greater tax avoidance where power is concentrated or management has strong ownership stakes. The correlation coefficients all fall below ±0.9 which directly indicates that there are no multicollinearity concerns which also supports the decision to use these variables in the regression analysis.

Table 3.
Pearson Correlation Matrix for Dependent (Dvs), Independent (IVs), and Control Variables.

Variables	ETR	ROE	LEV	BOSIZE	DCOMP	FEMALE	DREM	CEODUAL
ETR	1							
ROE	-0.059	1						
LEV	0.207	0.033	1					
BOSIZE	0.058	-0.009	0.213	1				
DCOMP	-0.010	0.017	-0.044	-0.110	1			
FEMALE	0.081	0.165	0.125	0.060	-0.221	1		
DREM	0.039	0.008	0.170	0.291	-0.021	0.063	1	
CEODUAL	-0.048	-0.015	0.012	-0.074	-0.050	-0.069	-0.010	1

Note: ETR = Effective tax rate; ROE = Profitability returns on equity; LEV = Leverage; BOSIZE = Board size; DCOMP = Director competency; FEMALE = Female director; DREM = Director's remuneration; CEODUAL = CEO duality.

6.3. Multiple Regression Analysis

The multiple regression analysis in Table 4. investigates how CG attributes and financial indicators influence ETR among 663 publicly listed Malaysian firms. The regression focuses on seven core independent variables: return on equity (ROE), leverage (LEV), board size (BOSIZE), director

ISSN: 2576-8484
Vol. 9, No. 7: 260-276, 2025
DOI: 10.55214/25768484.v9i7.8564

competency (DCOMP), female board membership (FEMALE), director remuneration (DREM), and CEO duality (CEODUAL). The model yields an R-squared of 0.0713, meaning it explains 7.13% of the variance in ETR across firms. Despite the modest explanatory power, the F-statistic in Table 4 is significant ($p < 0.001$), confirming the model's overall validity. The findings of the regression analysis reveal several noteworthy direct effects. Profitability measured by ROE exhibits a negative and statistically important correlation with the ETR ($\beta = -0.001$, $p = 0.043$), implying that more profitable companies manage to exhibit lower ETRs. This result establishes the view that highly profitable companies are more motivated to employ in tax evading strategies to reduce their tax burdens and maximize after-tax returns.

LEV on the other hand exhibits a positive and highly substantial connection with ETR ($\beta = 0.175$, $p < 0.001$), indicates that companies with higher debt levels incline to pay more taxes. This discovery does not tally to conventional assumptions that leverage leads to tax savings through the deductibility of interest expenses. This may now reflect that contextual factors such as regulatory scrutiny or limited flexibility in tax planning for heavily indebted firms. Furthermore, female board membership (FEMALE) is learned to be positively and significantly linked with ETR ($\beta = 0.086$, $p = 0.038$). Hence, this portrays that companies with a greater number of female directors may exhibit lower levels of tax avoidance, possibly due to stronger ethical governance values or a more conservative approach to fiscal decisions. However, other governance related variables, including board size (BOSIZE), director competency (DCOMP), director remuneration (DREM), and CEO duality (CEODUAL), does not display statistically important connections with ETR ($p > 0.05$) in Table 4. This indicates that the features of the board, which appeared to be relevant in theory, do not directly influence the tax avoidance behaviour of the companies that were sampled. In conclusion, ROE, LEV, and FEMALE are the only three things that show a strong direct link to ETR. This supports the impression that the study's hypotheses are at least fairly true. These results show how important board diversity and financial strength are in deciding how people pay their taxes. Nevertheless, these findings also suggest that structural board elements like executive duality may not have a big effect on how people pay their taxes.

Table 4.
Linear Regression Model.

Variables	Coef.	t-stat	p-value
ROE	-0.001	-2.03	0.043
LEV	0.175	5.30	0.000
BOSIZE	0.001	0.37	0.715
DCOMP	-0.025	-0.73	0.466
FEMALE	0.086	2.08	0.038
DREM	0.000	0.17	0.866
CEODUAL	-0.028	-1.14	0.254
CONS	0.188	6.81	0.000
R-Square		0.0713	
Prob > F		0.000	

Note: ETR = Effective Tax Rate; ROE = Return on Equity; LEV = Leverage; BOSIZE = Board Size; DCOMP = Director Competency; FEMALE = Female Director; DREM = Director's Remuneration; CEODUAL = CEO Duality.

6.4. Direct Relationship Regression Analysis

The analysis in Table 5 is based on regression results using PCSE to account for heteroskedasticity and autocorrelation, issues previously diagnosed through the Breusch–Pagan and Wooldridge tests. The regression results, detailed in Table 5, form the basis for understanding how profitability, leverage, board characteristics, CEO structure, and company demographics influence corporate tax behaviour among Malaysian publicly listed companies.

Table 5.
Direct Relationship Regression Result for Model 1.

Variables	Model 1 after test	ETR	
	Coef.	z-stat	p-value
ROE	-0.001	-3.77	0.000
LEV	0.175	8.04	0.000
BOSIZE	0.001	0.38	0.702
DCOMP	-0.025	-0.71	0.476
FEMALE	0.086	1.94	0.052
DREM	0.000	0.42	0.677
CEODUAL	-0.028	-2.23	0.026
CONS	0.188	9.64	0.000
R-Square		0.0713	
Wald chi2(8)		488.83	
Prob > F		0.000	

Note: ETR = Effective tax rate; ROE = Profitability returns on equity; LEV = Leverage; BOSIZE = Board size; DCOMP = Director competency; FEMALE = Female director; DREM = Director's remuneration; CEODUAL = CEO duality.

The results of the regression analysis in Table 5 shows that there is an intricate link between governance structures and commercial performance and CTA, as evaluated by the ETR. The results showed a significant negative link between profitability (which is measured by ROE) and ETR (β = -0.001, p = 0.000). This finding backs up the idea that companies that make a lot of money are more likely to try to pay less in taxes. This is likely because companies have more money and time to spend on complicated tax planning projects. On the other hand, leverage (LEV) had a statistically significant and positive connection with ETR (β = 0.175, p = 0.000). This result goes against what most theories say, which is that leverage should lower tax bills by using interest tax shielding. Instead, research shows that in Malaysia, companies with more debt may face institutional or regulatory barriers that make it harder for them to get the tax breaks that are usually available to companies that borrow money. This could lead to higher effective tax rates.

The study's findings in Table 5 indicate that there is no meaningful relationship between board size (BOSIZE) and ETR (β = 0.001, p = 0.702). This suggests that the actual number of board members doesn't seem to influence tax behavior on its own. This could mean that the quality of the board's content is more important than its size when it comes to choosing the financial measures that are put in place. It's also vital to point out that director competency (DCOMP), which was measured by financial or professional skills, did not have a statistically significant effect on tax evasion (β = -0.025, p = 0.476). This means that having directors who are good at technology doesn't inherently mean that they will use more aggressive or strategic ways to plan their taxes. In terms of gender diversity, the representation of female directors (FEMALE) revealed a marginally significant positive association with ETR (β = 0.086, p = 0.052). This finding implies that firms with greater gender diversity on their boards may exhibit more conservative tax behavior which potentially can be driven by higher ethical standards and a stronger commitment to regulatory compliance.

CEO duality (CEODUAL) was negatively and significantly linked to ETR (β = -0.028, p = 0.026) which suggests that when one person holds a lot of power, it might allow the company to adopt bolder tax avoidance tactics. It was also observed that managerial ownership (MO) has a notable and negative correlation with ETR (β = -0.028, p = 0.005) which aligns with the agency theory perspective that suggests that when executives hold a greater share of equity, their interests become more closely tied to the value of the shareholders. This promotes the adoption of strategies to minimize tax liabilities legally. Company age (CAGE) demonstrated a significant positive association with ETR (β = 0.000, p = 0.005) that suggests older company may adopt more conservative fiscal strategies or face structural limitations that reduce their capacity for aggressive tax planning. Equally, the number of employees (NEMP) was positively and significantly related to ETR (β = 0.000, p = 0.020) that indicates that

ISSN: 2576-8484
Vol. 9, No. 7: 260-276, 2025
DOI: 10.55214/25768484.v9i7.8564

larger workforces which often correlate with increased organizational complexity and administrative burdens may limit the effectiveness or attractiveness of intricate tax avoidance schemes.

The overall model yields an R-squared value of 0.0713 in Table 5, indicating that approximately 7.13% of the variance in CTA is explained by the independent variables included in the analysis. Although this figure reflects a relatively modest explanatory power, it remains consistent with prior tax avoidance literature, where multiple company specific, macroeconomic, and institutional factors often operate outside the scope of direct measurement. The statistical robustness of the model is affirmed by the Wald chi-square test result ($\chi^2 = 488.83$, $p = 0.000$), which confirms that the explanatory variables significantly account for variations in ETR across the sampled firms. The findings substantiate that CTA is significantly influenced by a company's financial performance and certain aspects of its governance structure. Specifically, profitability, leverage, CEO duality, and managerial ownership exhibit strong directional relationships with ETR, while factors such as board size, director competency, and remuneration appear to exert less direct influence. These results offer empirical validation for theoretical constructs drawn from agency theory and CG literature, while also highlighting the complexity and contextual sensitivity of tax behaviour among Malaysian public listed companies.

7. Conclusion

This study empirically investigates the direct relationship between CTA, proxied by the ETR and selected financial indicators and governance mechanisms among Malaysian public-listed firms from 2021 to 2023. Grounded in agency theory, the research assesses whether firm-specific financial performance (profitability and leverage) and governance attributes (board size, director competency, female board representation, director remuneration, and CEO duality) influence tax behaviour [28]. Findings reveal that tax avoidance in Malaysia is significantly shaped by financial and governance factors. Using PCSE regression, the analysis shows that profitability, measured by ROE, is negatively associated with ETR. This confirms that highly profitable firms are more likely to engage in tax minimization strategies. This behaviour aligns with agency theory, which posits that managers in profitable firms may adopt aggressive tax strategies to enhance performance [9, 34].

Despite the conventional wisdom that debt financing allows for tax shelters through interest deductibility, a study by Ali, et al. [33] found that leverage correlates positively with ETR. The advantages of debt-based tax planning may be limited in Malaysia due to legislative constraints or creditor scrutiny (Abdul Wahab et al., 2015). Another possibility is that heavily indebted companies will pay more in taxes since they are being prudent with their money to keep their credit ratings intact [65]. A slightly positive correlation between female board representation and ETR suggests that companies with more gender diversity in their leadership are less likely to engage in aggressive tax avoidance strategies. According to previous research [11] female directors are more likely to be cautious and ethically sensitive. The conclusion has policy implications for promoting gender diversity as an effective practice in governance even though it is marginal.

CEO duality has a significant negative relationship with ETR which indicates that power intensity in a sole leadership role increases tax avoidance. This reflects agency concerns that reduced board independence can lead to weakened oversight and opportunistic managerial behavior [66, 67]. However, there is no statistically significant relationship between board size, director competency, or compensation, indicating that these variables may not have separate effects on tax strategies in this setting [4]. The extended model's introduction of managerial ownership correlates negatively with ETR. Owners that manage a company tend to prioritize the interests of shareholders, such as minimizing taxes, as highlighted in agency theory [11, 68]. One possible explanation for the inverse relationship between company size and effective tax rates, when considering other factors, is that larger companies tend to have better access to tax specialists [20]. Yet, the slow pace of bureaucracy or outdated systems might explain the significant link between how long a company has been around and the number of employees it has.

The findings confirm that CTA in Malaysia is heavily influenced by financial and governance systems. Most important are profitability, leverage, gender diversity, the number of chief executive officers, and the percentage of ownership held by managers. Theoretically, the study reinforces agency theory by showing how managerial incentives and governance oversight shape tax planning decisions, especially within the institutional dynamics of an emerging market [28]. From a policy standpoint, the study suggests that improving tax compliance requires both statutory reform and better governance practices. Regulators and investors should promote gender diversity, limit CEO duality, and enhance transparency in board functions. Boards should also align their structures with broader compliance goals.

This study acknowledges limitations whereby the use of ETR alone may not fully capture tax avoidance, and the exclusion of unlisted firms affects generalizability. However, the stratified sampling approach, robust econometric techniques, and three-year scope ensure the reliability of results. Future research should consider alternative tax proxies, longer study periods, and cross-country comparisons to advance understanding of global corporate tax behaviours. In conclusion, this study confirms that financial strength and governance dynamics substantially influence tax avoidance practices in Malaysia. It offers empirical insights for academic and regulatory debates, contributing to the advancement of transparent, ethical, and accountable CG.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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DOI: 10.55214/25768484.v9i7.8564