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CSR Performance and Tax Aggressiveness:

Evidence from Malaysia

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Abstract

Globally, government debt has risen substantially, and the need to increase revenue to meet society's needs has become paramount, yet some companies are tax aggressive. Drawing upon shareholder and stakeholder theories, this thesis examines the relationship between CSR performance and tax aggressiveness using 556 observations spanning from 2008 to 2021. The study applies a quantitative research method using regression analysis to test the hypotheses. To gain a deeper understanding of which specific dimension of CSR performance (environmental, social or governance) influences tax aggressiveness, this thesis delves into exploring the connection between the individual dimension of CSR performance and tax aggressiveness. To overcome the limitations of prior studies, the thesis also examines the effect of the Sustainability Reporting Guide (SRG) and FTSE4Good Bursa Malaysia (F4GBM) on CSR performance and tax aggressiveness of Malaysian public listed companies.

The thesis results reveal a significant finding. There is a positive relationship between CSR performance and tax aggressiveness, suggesting that socially responsible companies in Malaysia engage in tax aggressiveness and do not consider tax as part of CSR performance. Instead, companies view tax and CSR performance as substitutes and perceive reductions in tax payments through tax aggressiveness as a means to generate more profits. This allows them to invest in innovation, create job opportunities, and contribute directly to societal well-being while meeting shareholders' expectations of profit maximisation. The results also show that different dimensions of CSR performance relate differently to tax aggressiveness. Environmental performance exhibits an insignificant relationship, while governance and social dimensions show positive relationships.

Further, the study shows that the introduction of SRG and the presence of the F4GBM index, to some extent, affects the relationship between CSR performance and tax aggressiveness. The results suggest that firms adopting SRG and listing in the F4GBM index recognise the importance of meeting the needs of their different stakeholders beyond the needs of shareholders, thus mitigating the positive relationship between CSR performance and tax aggressiveness.

The study contributes to the literature on CSR performance by unravelling the overarching influence of CSR performance on tax aggressiveness. The study shows that Malaysian companies view tax and CSR performance as having a substitutive relationship, indicating that they prioritise the interests of shareholders over broader stakeholder considerations. The key contribution is the examination of SRG and F4GBM on the relationship between CSR performance and tax aggressiveness. It provides insights into the role of regulatory pressure and the effect of compliance on the SRG and corporate reputation through listing in the (F4GBM) Index on the relationship between CSR performance and tax aggressiveness of Malaysian companies. Additionally, the study provides evidence on how each dimension of CSR performance contributes to shaping tax aggressiveness, covering an expansive timeframe, thus providing a unique and comprehensive view of the evolution of CSR performance and its correlation with tax aggressiveness.

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List of Abbreviations

ASEAN	Association of Southeast Asian Nations
BEPS	Base Erosion and Profit Shifting
BoardDiversity	Board Diversity
BoardIndependence	Board independence
BTaxDiff	Book-tax Difference
CapitalIntensity	Capital Intensity
CEO	Chief Executive Officer
CEODuality	CEO Duality
CombinedESG	CSR Combined Score
CSR	Corporate Social Responsibility
DGIR	Director General of Inland Revenue (Malaysia)
EC	European Commission
EMDE	Emerging Market and Developing Economies
ETR	Effective Tax Rate
F4GBM	FTSE4Good Bursa Malaysia
ForeignHold	Foreign Hold
FTSE	Financial Times Stock Exchange
GHG	Greenhouse Gas
GLC	Government Linked Companies
GLIC	Government Link Investment Companies
GDP	Gross Domestic Product
GovHold	Government Hold
GRI	Global Reporting Initiatives
IMF	International Monetary Fund
IRBM	Inland Revenue Board of Malaysia
ITA 1967	Income Tax Act 1967
LBATA	Labuan Business Activity Tax Act
LETR	Long-run Cash ETR
LR	Listing Requirements
MCCG	Malaysian Code of Corporate Governance
MNCs	Multinational Corporations
NGO	Non-government Organisations
NZD	New Zealand Dollars
OECD	Organisation for Economic Cooperation and Development
PLCTP	Public Listed Company Transformation Programme
RM	Malaysian Ringgit
ROA	Return on Assets
SOE	State-owned Enterprise
SRG	Sustainability Reporting Guide
UK	United Kingdom
UN	United Nation
US	United States of America
USD	US Dollar
WBCSD	World Business Council for Sustainable Development

CHAPTER 1 INTRODUCTION

Over the last few decades, society has become concerned that profit is the only objective of companies, particularly after the global economic crisis in 2008. The concern is further aggravated in part due to media reports of large, well-known multinational corporations (e.g. Apple, Amazon, Exxon-Mobil, Microsoft, and Google) failing to pay their fair share of taxes through aggressive tax avoidance activities. Some enterprises, such as KPMG and Wal-Mart, that claimed to be socially responsible were also involved in tax avoidance activities (Sikka, 2010). Thus, the relationship between CSR performance and tax has attracted the attention of scholars globally, including in Malaysia.

As such, the thesis examines the relationship between corporate social responsibility (CSR) performance and tax aggressiveness of Malaysian listed companies. This thesis also extends its focus to scrutinise the relationship between the individual dimension of CSR performance and tax aggressiveness, building upon prior research (e.g., Dahlsrud, 2008; Laguir *et al.*, 2015), which suggests varying impacts dimensions of CSR performance on corporate tax aggressiveness. Given the implementation of the Sustainability Reporting Guide (SRG) and FTSE4Good Bursa Malaysia (F4GBM) Index (Refer Sec 1.2 p.8, Section 6.4) by the Stock Exchange in Malaysia (i.e., Bursa Malaysia), the thesis takes the opportunity to examine whether these frameworks affect the relationship between CSR performance and tax aggressiveness. The formulation of hypotheses is underpinned by both shareholder theory and stakeholder theory.

The following sections of this chapter briefly discuss the motivation and rationale of the thesis and also provide some background information on Malaysia and its tax system, the aim and objectives, and the significance of the study.

1.1 Motivation

Tax payments and collections have always been considered a legal issue as they are regulated and governed, and it is solely the government's responsibility to act on those who do not meet their tax obligations (Jones *et al.*, 2017). However, in recent decades, society's awareness of the significance of taxes has grown considerably (Christensen & Murphy, 2004; Davis *et al.*, 2016; Dowling, 2014), amplified by the global economic crisis of 2008 (Lanis & Richardson, 2015). In 2019, COVID-19 caused the sharpest downturn in the global economy (International Monetary Fund, 2022). By 2020, government debt in advanced economies (such as France, Germany, Italy, Japan, and the United Kingdom) surged to 123 % of GDP, while in emerging markets and developing economies (EMDEs) (such as Thailand, Sri Lanka, Philippines, Nepal, Cambodia, and Malaysia), it rose to 63% (Kose *et al.*, 2021). The elevated level of government debt necessitated more prudent spending. This has highlighted the importance of collecting corporate tax payments, which serve as a crucial source of funding for governments worldwide to provide social services (Dmytriiev *et al.*, 2021). According to the Organisation for Economic Cooperation and Development (OECD), on average, in 2020, corporate tax payments contributed to 15.1% of total tax revenue across 116 countries (OECD, 2023a). These payments are vital for governments to provide public goods and services to society and for countries to develop further (Adela *et al.*, 2023; Gribnau, 2015; Martinez, 2013). However, multinational corporations (MNCs) (e.g., Google, Apple, Amazon, Exxon-Mobil, Microsoft, Google, Netflix, Amazon and Starbucks) have been found to pay minimal corporate tax to the

governments through tax aggressive activities (Nkobane, 2024; Col & Patel, 2019; Drucker, 2010; European Commission, 2012; Sikka, 2010), prompting growing societal concern that companies should not prioritise profit as their sole objective since they are entrusted with legal, ethical, and philanthropic responsibilities (Avi-Yonah, 2008; Carroll, 1991, 2020; Christensen & Murphy, 2004; Gribnau, 2015).

These escalating societal concerns have drawn global scholarly attention to scrutinise the correlation between CSR performance and tax. Moreover, two differing views exist on the relationship between CSR performance and tax aggressiveness. One views tax as part of CSR performance, while the other regards tax as a substitute for CSR performance. A company's tax contribution may be considered fair when it aligns with "taxpayers of similar economic standing" (De La Cuesta-Gonzalez & Pardo, 2019, p.2177). Engaging in a tax minimisation strategy that results in significantly lower payments compared to other taxpayers is not conducive to CSR performance. Therefore, tax payments are considered a vital aspect of society's CSR performance framework since they represent a company's fundamental contribution to the community (Avi-Yonah, 2008; Christensen & Murphy, 2004; Lanis & Richardson, 2015; Scarpa & Signori, 2023). This view aligns with the European Commission (EC) (2011, p.6), which sees CSR performance as "the responsibility of enterprises for their impacts on society", suggesting that companies should encompass social, environmental, human rights, ethical behaviour, and consumer concerns into their core strategy and operations. Consistent with this perspective, some scholars (e.g., Christensen & Murphy, 2004; Hoi *et al.*, 2013; Lanis & Richardson, 2011, 2012; Preuss, 2010; Sikka, 2010) argue that tax fits the definition of CSR performance and should be an integral part of CSR performance. They contend that company taxation represents a tangible and essential form of corporate

involvement in society, playing a pivotal role in funding the development of a country's infrastructure and social welfare projects (Martinez, 2013). As such, companies that use tax aggressiveness, tax avoidance, or tax sheltering to reduce tax payments (Lanis & Richardson, 2011; Huseynov & Klamm, 2012; Mao & Wu, 2019) are against the spirit of CSR performance (OECD, 2019). Although tax aggressiveness and tax avoidance may not be considered illegal, they reduce tax liabilities by exploiting loopholes in tax laws to their advantage (Middleton & Muttonen, 2020). Moreover, the fact that CSR performance and tax strategy are considered corporate strategies further entrench tax as part of CSR (Avi-Yonah, 2009; Bird & Davis- Nozemack, 2018; Christensen & Murphy, 2004; Fallan & Fallan, 2019; Lanis & Richardson, 2011, 2012).

Thus, if the above view holds true, firms with good CSR performance records should not be engaging in tax aggressive behaviour. However, anecdotal evidence suggests that even firms with good records of CSR performance, such as KPMG and Wal-Mart, have indulged in tax avoidance activities (Sikka, 2010). Consequently, this has prompted the question of whether companies known for their CSR performance are also indulging in tax aggressiveness.

Existing literature suggests that some companies tend to reduce their corporate tax payment when they engage more in CSR performance (Fallan & Fallan, 2019). Davis *et al.* (2016) provide evidence that CSR performance and tax payments can act as substitutes. They posit that paying taxes detracts from social welfare, contending that tax payments diminish innovation, job growth, and economic development. In line with this view, some researchers argue that paying less taxes can result in greater social benefits. They argue that for-profit firms are more efficient than the government in allocating resources (McGee, 2010; Porter & Kramer, 2006). This perspective suggests that managers of socially responsible firms may not

view the payment of corporate taxes as the most effective means to achieve their social responsibility goals. Therefore, taxation can be a substitute for CSR performance (Davis *et al.*, 2016; Jemiolo & Farnsel, 2023). The substitute relationship typically centres on the role of CSR performance as a management tool to counterbalance the negative perception associated with tax avoidance behaviour. This aligns with shareholder theory, in which firms strive to deliver increased benefits primarily to shareholders. From a shareholder perspective, tax avoidance can offer a legal means to reduce a major expense of doing business, which can reduce distributable profits to shareholders. Shareholder theory does not preclude CSR performance behaviour; instead, it suggests that CSR performance should be driven by financial incentives. This viewpoint asserts that the social responsibility of business is to ensure that companies generate maximum profits within the confines of the law (Friedman, 2007). Following this logic, the relationship between CSR performance and tax aggressiveness should be positive.

This inconclusive evidence prompts the call for additional research to gain further insights into and a better understanding of the relationship between CSR performance and tax aggressiveness (Davis *et al.*, 2016; Hanlon & Heitzman, 2010; Hoi *et al.*, 2013; Huseynov & Klamm, 2012). Moreover, tax revenue is vital for enabling the Malaysian government to improve its infrastructure and spur economic growth. If taxes are seen as a substitute for CSR performance, companies may seek to minimise their tax payments while still participating in CSR performance. This could result in the government having fewer funds available for infrastructure development. As such, it is important to study whether taxes act as a substitute for or a part of CSR performance to help the Malaysian government develop policies to ensure sufficient tax revenue are collected to support infrastructure and economic growth, as well as

strategies to encourage companies to pay their fair share of taxes. In response, this thesis¹ uses data from Malaysian-listed firms² to investigate whether their participation in CSR performance signifies tax as a substitute for CSR performance or as an integral part of CSR performance.

1.2 Rationale

Prior studies on the association between CSR performance and tax aggressiveness have produced mixed results (Godfrey *et al.*, 2009; Mao & Wu, 2019). While some studies show that socially responsible firms are less likely to participate in tax aggressiveness (Christensen & Murphy, 2004; Hoi *et al.*, 2013; Lanis & Richardson, 2012; Mao & Wu, 2019), others find the opposite (Davis *et al.*, 2016; Godfrey *et al.*, 2009; Preuss, 2010). Notably, investigations into the association between CSR performance and tax aggressiveness have predominantly concentrated on developed countries such as the US and Australia (e.g., Col & Patel, 2019; Hoi *et al.*, 2013; Lanis & Richardson, 2013). Even within these developed contexts, limited studies have explored the impact of different dimensions of CSR performance and its relationship with tax aggressiveness (Laguir *et al.*, 2015). As mentioned previously, mixed results and limited research in developing countries have warranted more research to examine whether companies' CSR performance shape the corporate tax strategy in these countries (Lin *et al.*, 2017; Muller & Kolk, 2015; Pratiwi & Siregar, 2019). Therefore, this thesis enriches the literature by investigating the relationship between CSR performance and tax aggressiveness in the specific context of Malaysian listed companies. The findings would hold greater

¹ This thesis used the terms 'study' and 'thesis' interchangeably.

² The terms companies, firms and corporations are used interchangeably.

significance for developing countries as these countries are more heavily dependent on corporate tax revenue as a primary funding source (OECD, 2019, 2023a).

Corporate tax constitutes a major source of tax revenue in Malaysia. As reported by the Ministry of Finance (MOF) in 2023, corporate tax collection has contributed more than 25% of Malaysia's revenue from 2011 to 2022 (Refer to Appendix 1 p. 248) for the total revenue and breakdown of tax revenue). Although tax collection remains a crucial revenue source for Malaysia, with its tax revenue accounting for just 11.8% of its gross domestic product (GDP) in 2021, it is well below the average GDP of countries in the OECD (34.1%) and the Asia Pacific (19.8%) (OECD, 2023b). Additionally, Malaysia is one of the lowest tax revenue collectors in the Association of Southeast Asian Nations (ASEAN) region, with Singapore and Thailand collecting 12.6% and 16.4% of their GDP, respectively (The Edge Malaysia, 2023). This suggests the government should critically examine the underlying causes of low tax collection and explore potential strategies to enhance taxpayers' compliance behaviour. For instance, low collection could be a red flag for the government to find more ways to improve their tax collections. More importantly, it could be a red flag of taxpayer's misdemeanour or tax aggressiveness in tax compliance (The Edge Malaysia, 2023). As the Malaysian Government is reliant on corporate tax payments for expenditure, the issue of tax aggressiveness becomes of paramount importance as it deprives the government of essential funds required for ongoing development projects (Adela *et al.*, 2023). Consequently, Malaysian companies emerge as ideal candidates for examining the thesis's main research question, which is the relationship between CSR performance and tax aggressiveness of listed companies in Malaysia.

In Malaysia, the few studies that explore the link between CSR performance and tax aggressiveness have yielded mixed results (Hamid *et al.*, 2018; Mohanadas *et al.*, 2020). These studies were conducted during the nascent phase of mandatory CSR performance disclosure in Malaysia, encompassing a restricted timeframe. Hamid *et al.* (2018) study covers 2015, while Mohanadas *et al.* (2020) cover 2010 to 2012. This thesis addresses this gap by investigating the relationship between CSR performance and tax aggressiveness in Malaysian listed companies over fourteen years (2008-2021) to assess whether they see tax payments as part of CSR performance obligations or a substitute for CSR performance. Through this exploration, the thesis seeks to surpass the constraints identified in earlier studies (e.g., Hamid *et al.*, 2018; Mohanadas *et al.*, 2020), contributing depth and insights to enhance comprehension and generalisability regarding the relationship between CSR performance and tax aggressiveness in the context of a developing country.

Furthermore, given the scarcity of research on how the distinct dimensions of CSR performance impact tax aggressiveness, this thesis extends its inquiry to examine how the individual dimension of CSR performance (e.g., environmental, social, and governance) shapes the tax strategies of Malaysian listed companies. Specifically, the thesis seeks to discern whether a particular dimension of CSR performance influences a company's tax strategies differently or if all the individual dimensions exert a similar impact on tax aggressiveness. In doing so, the thesis aims to contribute findings and insights from a developing economy to the limited body of research conducted in developed countries.

In December 2014, Bursa Malaysia (the stock exchange of Malaysia), in collaboration with the Financial Times Stock Exchange (FTSE), launched the Environmental, Social and

Governance Index (ESG) known as FTSE4Good Bursa Malaysia Index (F4GBM).³ The F4GBM Index, which was designed to identify socially responsible companies (Bernama, 2014; Bursa Malaysia, 2014), aligns with the principles of stakeholder theory; that is, companies place importance on the interests of their stakeholders, in addition to their shareholders (Donaldson & Preston, 1995; Mitchell *et al.*, 1997). Socially responsible companies, as per this framework, perceive tax as a component of CSR performance and uphold the principle of paying their fair share of taxes (Avi-Yonah, 2008; Christensen & Murphy, 2004; Lanis & Richardson, 2015). For these companies, tax payments are viewed as complementary to CSR performance (Davis *et al.*, 2016; Jemiolo & Farnsel, 2023). This raises an intriguing question about whether the presence of the F4GBM Index affects the relationship between tax aggressiveness and CSR performance among companies in Malaysia.

In 2015, Bursa Malaysia issued a comprehensive Sustainability Reporting Guide 2015 (SRG), compelling all listed companies, commencing from 2016, to disclose their CSR performance around three key areas: economic, environmental, and social performance (Bursa Malaysia, 2015). Three years later, Bursa Malaysia issued a revised guide, SRG 2018, incorporating international developments on CSR performance and industry feedback through Bursa Malaysia's workshop. The updated SRG 2018 includes more recent examples of disclosures on CSR performance and case studies illustrating how companies can integrate CSR performance into their business strategy (Bursa Malaysia, 2018). The establishment of both SRGs may have influenced the level of CSR performance, but unfortunately, so has the degree of tax aggressiveness among Malaysian companies. In this context, this study extends the work conducted by Mohanadas *et al.* (2020) by delving deeper into the nexus between

³ F4GBM constituents are selected from the top 200 Malaysian stocks in the FTSE Bursa Malaysia Emas Index.

CSR performance and tax aggressiveness. Specifically, it investigates whether recent CSR-related regulations, namely, the SRG 2015 and SRG 2018, have impacted the relationship between CSR performance and tax aggressiveness.

1.3 Research Context: Malaysia

To provide some insight into why Malaysia serves as a compelling setting for studying the relationship between CSR performance and tax aggressiveness among listed companies, this section provides an overview of Malaysia's institutional background, including its tax systems, development of CSR performance, and its significance in the context of this research.

Since gaining independence in 1957, Malaysia has transformed its economy from agriculture and commodities to a focus on manufacturing and services. In its pursuit of sustained economic growth, the Malaysian government has introduced diverse tax incentives, aiming to entice both foreign and domestic companies to invest, establish new ventures, and reinvest in Malaysia's business landscape (Deloitte, 2020; see Appendix 2 p. 249). The purpose of various tax incentives by governments is to encourage companies to minimise their carbon footprint through the adoption of eco-friendly practices (Souguir *et al.*, 2024; see Appendix 2 p. 249).

1.3.1 Malaysian Tax System

a. Overview

Malaysia's tax system is divided into indirect and direct tax revenue (MOF, 2023). Indirect taxes include goods and services tax (GST), export and import duties, excise duties, and tourism tax. The primary source of direct taxes in Malaysia is corporate income tax, followed by individual income tax, petroleum income tax, and other direct taxes such as stamp duty, withholding tax and the Labuan Business Activity Tax Act 1990, which governs the taxation of companies

registered in Labuan. Direct taxes contribute to almost 52.14% of the federal government's total revenue for 2022 (MOF, 2023) and are under the jurisdiction of the Inland Revenue Board of Malaysia (IRBM). (Refer to Appendix 1 p. 248 for the tax revenue and composition of corporate tax from 2008 – 2022).

Since 2001, Malaysia's corporate taxes have been assessed on a current-year basis and under the self-assessment system (IRBM, 2001). The introduction of the system is to improve the tax system and to make it easier for tax players to meet their tax responsibilities. A corporation is considered a resident in Malaysia in the year of assessment if, at any time during that year, the management and control of its business or any of its businesses are exercised in Malaysia (IRBM, 2011). The key factor in ascertaining the residence status of a company in Malaysia is the management and control of the corporation, which refers to the controlling authority that sets the corporation's policies or where the directors conduct their business dealings, irrespective of where the corporations are incorporated (IRBM, 2011). Non-resident companies that derive business income in Malaysia through a permanent establishment are also subjected to Malaysia's corporate income tax. In comparison, non-resident companies operating international trades are only taxed in Malaysia on the income generated in Malaysia.

With effect from 1st January 2004 or the year of assessment 2004, tax residents of Malaysia are exempted from tax for foreign source income that is remitted into Malaysia (Income Tax Act 1967, paragraph 28). Nevertheless, this rule does not apply to resident companies carrying on the business of banking, insurance, or sea or air transport that derive income from sources outside Malaysia and receive it in Malaysia. This favourable treatment has led to Malaysia being downgraded to the grey list on tax evasion by the European Union, which prompted the Malaysian government to remove the exemption from 1st January 2022

(IBFD, 2022). However, foreign source dividend income is exempted till 31st December 2026 (IRBM, 2022a). Table 1-1 summarises the tax treatment as follows.

Table 1-1

Summary of tax treatment for tax residents in Malaysia

Income received in Malaysia	Source of income derived from	To 31/12/2021	With effect from 1/1/2022
Malaysia	Malaysia	Taxable	Taxable
Malaysia business from outside of Malaysia	Malaysia	Taxable	Taxable
Malaysia	Overseas	Tax exempted from the year assessment 2004	Taxable
Overseas	Overseas	Not taxable	Not taxable

(Adapted from Crowe, 2022)

To deter tax avoidance, Section 140 of the Income Tax Act of 1967 (ITA, 1967) serves as an anti-avoidance provision, empowering the IRBM to take action when evidence suggests that an agreement or arrangement may manipulate the tax liability. IRBM is authorised to disregard or modify any arrangement that results in unfavourable tax consequences due to the said arrangement. In addition, with effect from 1st January 2009, a new Section 140A was gazetted into ITA 1967, which deals specifically with issues on transfer pricing and aggressive tax strategies. This provision aims to reduce aggressive tax strategies through transfer pricing to protect Malaysia's tax base.

b. Tax Incentives

The government of Malaysia adopts a progressive stance by granting special tax incentives to encourage the expansion of local businesses and attract foreign direct investments (Yong,

2019).⁴ These incentives are given for promoted activities, products, and areas, including tax exemption on income (tax holidays) for a specific time, preferential tax treatment for promoted sectors, and others (Deloitte, 2021; Yong, 2019). For example, in 2014, the Malaysian Government introduced the Green Technology Tax Incentive to expedite the growth of the green economy (refer to Appendix 2 p. 249 for the list of Tax Incentives). Another preferential tax treatment incentive is given to companies incorporated in Labuan⁵ under the Labuan Business Activity Tax Act (1990) (LBATA). This preferential tax treatment accords Labuan companies with the choice of paying a flat tax of RM20,000 (NZD 7,095) for a year of assessment or a tax of 3% from their taxable income. With no substance requirement to prove business activities, Malaysian taxpayers can easily claim total deductions for payments made to Labuan entities under Section 33 of the ITA 1967. As a result of the LBATA, many local and MNCs resorted to aggressive tax strategies, such as establishing shell companies to obtain this preferential treatment (Sulaiman *et al.*, 2019).

For example, the case of Enesco-Gerudi demonstrates how tax planning by companies causes revenue loss to the government (IRBM, 2023; Naban & Kumar, 2016; Sulaiman *et al.*, 2019; The Star, 2021).⁶ Although the company's tax planning is within the ambit of law, its aggressiveness has led to revenue loss to the government, and it is neglecting its CSR performance. Studies show that tax incentives positively affect tax aggressiveness (Hasanudin

⁴ Tax incentives in Malaysia include pioneer status, reinvestment allowance, group relief, double deduction and increase export allowance.

⁵ Labuan is an island federal territory of Malaysia.

⁶ In the case of Enesco-Gerudi, the court ruled in favour of the company, citing Ministry of Finance approval for its business transactions with the Labuan entity. Despite a revenue loss, the transactions align with the government's intended scope and meaning of arrangements to provide tax incentives for promoting Labuan (IRBM, 2023c; Naban & Kumar, 2016; Sulaiman *et al.*, 2019).

et al., 2022), and tax avoidance stems from the privileges and reliefs offered by the government to the companies (Duhoon & Singh, 2023).

Given the range of tax incentives provided by the Malaysian government, companies have ample opportunities to strategically plan their tax activities to minimise their tax payments. Hence, Malaysia presents an ideal setting for studying the relationship between CSR performance and tax aggressiveness.

c. Tax Aggressiveness

Tax aggressiveness is considered to be widespread in Malaysia (Brohier, 2018; Noor *et al.*, 2010). Tax aggressiveness is defined as minimising taxable income through tax planning (Adela *et al.*, 2023). In particular, numerous companies have been found to adopt various aggressive tax strategies to minimise tax payments (Brohier, 2018; Noor *et al.*, 2010). The Fiscal Outlook and Federal Government Revenue Estimates Report shows that among 1.2 million registered companies in Malaysia, only 62.4% are registered corporate taxpayers and merely 7.8 % were subject to tax in the year of assessment 2017 (The Edge Malaysia, 2021). This data underscores the assertion by IRBM that the country's overall level of tax compliance remains relatively low. An analysis by Focus Malaysia, based on the accounting profit of the top 50 listed companies, revealed that 22 of these companies paid below the standard tax rate of 24%, while 25% paid above the standard rate in Malaysia (Daily Express, 2018). What adds to the intrigue is that the top five listed companies in Bursa Malaysia paid less than the standard tax rate on income generated within Malaysia (Daily Express, 2018). A more recent investigation by IRBM in the cooking oil industry shows that out of the 63 companies investigated, 44 had underdeclared their profit, and 19 had failed to declare any tax (Malay Mail, 2023). Although it does not necessarily imply that all these companies are tax aggressive as some may have losses carried

forward, capital allowances, be eligible for tax incentives, or be exempted from tax on their foreign source income, this still suggests a higher likelihood of tax aggressiveness.

Table 1-2 shows the number of tax audit cases and investigation cases that IRBM has conducted to fight tax avoidance, tax aggressiveness, or tax evasion by companies to curb tax leakages (i.e., the differences between potential tax and the actual tax collected).

Table 1-2

Summary of audit and investigation cases in Malaysia

Year	Number of audit cases resolved	Number of investigation cases
2014	98,615	689
2015	138,203	1,063
2016	161,760	1,454
2017	178,583	2,169
2018	171,198	2,935
2019	230,144	4,098

(Source: IRBM Annual Report 2014 to 2019)

The continuous increase in tax audit cases with penalties imposed over the years shows that companies in Malaysia are actively engaging in aggressive tax planning activities. As such, there is indeed a prevalence of both legal and illegal tax strategies adopted by Malaysian companies (IRBM, 2018). Thus, Malaysia provides an ideal context for examining whether companies perceive themselves as socially responsible while still engaging in tax aggressiveness.

1.3.2 Development of CSR Performance in Malaysia

The evolution of CSR performance in Malaysia began during the 1980s and experienced significant expansion throughout the 2000s. This remarkable growth can be largely attributed to the proactive stance of the Malaysian government, which has actively encouraged companies to operate in a manner that is both accountable and socially responsible. In 2006, Bursa Malaysia adopted the definition of the World Business Council for Sustainable

Development (WBCSD) (2000) and defined CSR as "*business practices that are transparent and open, encompassing ethical values and respect for employees, environment, communities, and the shareholders*" (Bursa Malaysia, 2006). This definition sends a clear message that companies should take a broader responsibility towards society by considering the social and environmental impact of corporate activities when making business decisions (Deegan *et al.*, 2000; Freeman & Hasnaoui, 2011).

The first CSR guidelines, the Silver Book, were issued in 2006 to government-linked companies (GLC) to guide their CSR performance (Haji, 2013). In the same year, Bursa Malaysia issued a CSR framework to publicly listed companies that outlined the four key CSR areas: community, environment, workplace, and marketplace (Bursa Malaysia, 2006; Refer to Appendix 4 p. 252 for a summary of the dimensions of CSR performance). Following that, Bursa Malaysia made it mandatory for listed companies to disclose their CSR performance in their annual reports in 2007 (Bursa Malaysia, 2006), but there were no clear guidelines on what needed to be reported for disclosures on CSR performance. In Malaysia's early stages of the development of CSR performance, companies primarily focused on philanthropic activities for orphanages, people experiencing poverty, and charitable societies (Zulkifli & Amran, 2006). As a result, disclosures on CSR performance by companies were mainly on human resources and communities, and the reporting quality was relatively low (Abd-Mutalib *et al.*, 2014; Haji, 2013; Teoh & Thong, 1984).

Recognising the paramount significance of CSR performance for the broader society, as mentioned in Section 1.2, Bursa Malaysia took a significant step by introducing the Environmental, Social, and Governance (ESG) Index, named FTSE4 Good Bursa Malaysia (F4GBM) in partnership with the Financial Times Stock Exchange (FTSE) in December 2014

(Bursa Malaysia, 2014). F4GBM constitutes an integral component of the worldwide FTSE4 Good Index Series, designed to aid investors in pursuing ESG investments. Its objectives encompass enhancing companies' visibility, upholding robust ESG practices, promoting transparent and exemplary disclosures, and actively fostering the transition toward a sustainable, low-carbon economy (Bursa Malaysia, 2023). F4GBM comprises firms in the Bursa Malaysia Emas Index, spanning small, medium, and large enterprises categorised by market capitalisation. Companies interested in being constituents of F4GBM must satisfy diverse ESG inclusion criteria stipulated under the FTSE4Good Index (Bursa Malaysia, 2023). Beginning with 24 constituents upon its inception in 2014, constituents of F4GBM have grown to 87 as of June 2022 (Bursa Malaysia, 2023), underscoring a notable rise in corporate consciousness regarding sustainable business practices.

In October 2015, Bursa Malaysia launched its Sustainability Framework and issued a Sustainability Reporting Guide and Toolkits (Refer to Appendix 3 p. 251 for an outline of SRG 2015). The Sustainability Reporting Guide (SRG) is based on the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines. The companies listed in the Main Market⁷ and ACE Market⁸ had to adhere to SRG, starting from the financial year ending 31st December 2016. The guide covers three key areas: economic, environmental, and social performance, while the guide on governance is issued separately. The thesis examines the environmental (E), social (S) and governance (G) dimensions of CSR performance (Refer to Chapter 2, p. 39, for the relationship between CSR performance and ESG). SRG provides comprehensive yet

⁷ The Main Market is a prime market for companies that meet the standard in terms of quality, size and operations stated by Bursa Malaysia under the listing requirements.

⁸ The ACE Markets is a sponsor driven market designed for companies with growth prospects. Sponsors need to take into consideration attributes such as business prospects, corporate conduct and adequacy of internal control.

specific guidance on "what" and "how" the companies should disclose information on CSR performance in their disclosures on their CSR performance. The SRG is directly linked to GRI; for example, community investment is linked to GRI – G4-EC1 (Bursa Malaysia, 2015, 2018). The link with GRI is helpful to MNCs as the requirement of the Malaysian Sustainability Report is aligned with that of GRI, making it easier for the MNCs to standardise the disclosures on CSR performance across their subsidiaries (Bursa Malaysia, 2015, 2018). With such detailed and actual cases used as explanations, the expectation is that Malaysian companies should be able to produce transparent and informative disclosures that fulfil the requirements of their stakeholders.

CSR reporting refers to the disclosure of information by companies regarding their CSR performance and activities undertaken during the financial year. CSR activities or practices, on the other hand, include business actions related to social, environmental and governance (ESG) initiatives, such as donations, scholarships, water conservation and the use of environmentally friendly machinery (Nazari *et al.*, 2017; Nik *et al.*, 2003; Othman *et al.*, 2011).

This study uses the term CSR performance based on the scores provided by ASSET4. These scores are calculated by ASSET4 based on CSR disclosures made by companies in their annual reports or websites. ASSET4 then verifies the information through a systematic review of the companies' disclosures to ensure the reliability of the CSR performance scores.

1.3.3 Corporate Governance

Corporate governance is another key advantage of choosing Malaysia, given the strong emphasis the government places on it for publicly listed companies, as well as its continuous efforts to enhance governance mechanisms. A public listed company in Malaysia refers to a

company with share issuance through an initial public offering (IPO) traded on at least one stock exchange or in the over-the-counter market. The market determines the public listed company's overall value through daily trading (Bursa Malaysia, 2022). The Securities Commission of Malaysia issued its first Malaysian Code of Corporate Governance in 2000 (MCCG, 2000), guiding companies' corporate governance mechanisms (Securities Commission Malaysia, 2000). The MCCG gives a clear definition of the roles and responsibilities of the board, reinforces the effectiveness of independent directors, strengthens board composition, commitments, integrity in financial reporting, risk management, timely and high-quality disclosure and the relationship between companies and the interest of shareholders (Securities Commission Malaysia, 2012). MCCG also guides the improvement of board policies and processes on selecting directors, strengthening board oversight, integrating sustainability practices in companies' operations, and encouraging best practices (Securities Commission Malaysia, 2021) to safeguard stakeholders' interests. With commitment and continuous improvement of guidelines on corporate governance, public listed companies in Malaysia are well aware of the corporate governance mechanism and the importance of a solid board to ensure the company's continuous growth.

1.4 Aim and Objectives

This thesis aims to examine the relationship between CSR performance and tax aggressiveness of Malaysian publicly listed companies, and how this relationship is influenced by the introduction of SRG and the F4GBM index. Following the aim of the study, the study objectives are set out to examine: whether there is a relationship between the CSR performance and tax aggressiveness of Malaysian companies;

- (1) whether there is a relationship between the individual dimension of CSR performance and the tax aggressiveness of Malaysian companies;
- (2) whether the SRG affects the relationship between CSR performance and tax aggressiveness of Malaysian listed companies; and
- (3) whether the F4GBM Index affects the relationship between CSR performance and tax aggressiveness of Malaysian listed companies.

1.5 Significance of the Study

Studying the relationship between CSR performance and tax aggressiveness in a developing country holds significant merits. This study differs from other Malaysian studies as it looks at both the overall CSR performance scores and the individual dimensions of CSR performance and their relationship with tax aggressiveness. It also examines the impact of the issuance of SRG and the F4GBM index on the relationship between CSR performance and tax aggressiveness. Additionally, this study uses an independent third-party provider for its CSR performance scores to provide more reliable data and includes loss-making companies as sample companies. As such, the study can help stakeholders and company management better understand the relationship between CSR performance and tax aggressiveness from a Malaysian viewpoint.

First, the results can shed light on understanding how CSR performance and tax behaviour intersect to provide insights into a company's stance on the relationship between CSR performance and tax aggressiveness, whether tax is part of CSR performance or a substitute for CSR performance. Although prior studies exist, they have produced mixed or inconclusive findings. This study can help to confirm or reassess the previous findings, thus providing a clearer picture of the relationship between CSR performance and tax strategies.

Additionally, tax policies and CSR performance practices evolve with new regulations, changes in tax laws or shifts in expectations on CSR performance, which can alter the relationship between CSR performance and tax strategies. Moreover, what constitutes CSR performance and how companies approach it can change over time. New studies can help clarify these evolving definitions and practices, and a recent study such as this study can provide up-to-date insights reflective of the current context. As such, providing updated and context-specific data can help resolve discrepancies in previous research and offer a clearer understanding of the relationship.

Furthermore, most prior studies have been conducted in other countries; however, different countries have different economic circumstances and growth rates. In some countries, awareness of CSR performance is lower than in other countries; some disclosures are voluntarily issued, while others are mandatory. Besides that, some countries issue specific guidelines to help companies understand the importance of CSR performance in helping them grow and helping the country they are operating in fund infrastructure and social welfare. Since the specific dynamics can vary significantly between regions, countries, and industries, a new study such as this study, which focused on a new or under-researched context, might reveal different insights or trends that previous research has not covered.

Second, in addition to the overall CSR performance, this study also examines the relationship between the individual dimension of CSR performance and tax aggressiveness. Most prior studies in Malaysia look at the relationship between overall CSR performance and tax aggressiveness (Hamid *et al.*, 2017; Mohanadas *et al.*, 2020). The study by Hamid *et al.* (2018) examines the individual dimensions of CSR performance; however, their study only examines the relationship for a period of one year, and it was conducted before the SRG and

its enforcement. The study by Mohanadas *et al.* (2020) examines individual themes in the dimensions of CSR performance, such as workplace and marketplace. This study differs from Mohanadas *et al.* (2020) as it analyses individual dimensions of CSR performance, namely environmental performance, social performance and governance performance. Examining the individual dimension of CSR performance can help companies and policymakers to know which dimension of CSR performance impacts tax aggressiveness. This can give insight to help stakeholders understand firms' motivations and the factors that influence their tax behaviour. The results also provide an avenue for stakeholders to gain insight into companies' ethical stances concerning CSR and financial gains. The results can help companies to develop strategies to address these issues. Additionally, it can help policymakers to develop strategies that can help to align CSR performance with tax revenues.

Third, the thesis examines the role of the F4GBM index and SRG in moderating the relationship between CSR performance and tax aggressiveness of listed companies in Malaysia. No prior studies in Malaysia used SRG (regulatory effect) and the F4GBM Index (corporate reputation) to moderate the relationship between CSR performance and tax aggressiveness. By investigating whether the listing under the F4GBM Index and the presence of SRG impact the correlation between CSR performance and tax aggressiveness, the study contributes valuable insights into the influence of the corporate reputation through listing in the F4GBM index and regulatory and enforcement effect through SRG in promoting good corporate behaviour and governance in the Malaysian context. The findings may have implications for policymakers, businesses, and stakeholders, guiding the integration of responsible business practices and tax strategies.

Fourth, the thesis includes loss-making companies as its sampled companies and uses book-tax differences (*BTaxDiff*) as the main proxy of tax aggressiveness in addition to long-run cash *ETR* (*LETR*) and effective tax rate (*ETR*) as both *BTaxDiff* and *LETR* can be used for sampled companies with loss. Including loss companies allows the study to enhance its analysis and provide a subtle view of the overall relationship between CSR performance and tax aggressiveness. As such, the study differs from most prior Malaysian studies, which do not include loss-making companies as their sample companies. Since loss companies might also be indulging in tax aggressiveness, the use of *BTaxDiff* and *LETR* allows the study to better examine the extent of tax aggressiveness in Malaysian companies, which was not examined by prior Malaysian studies (Hamid *et al.*, 2017, 2018; Mohanadas *et al.*, 2020). Like many other tax systems, Malaysia allows companies to carry forward losses from previous years to offset future taxable income. In addition, Malaysia also provides group relief, which enables companies within the same corporate group to offset losses against the profits of other group entities. Moreover, in the case of this study, there were 18 loss companies, which comprised 32% of the sample size. Ignoring these companies will not help stakeholders to know the actual relationship between the CSR performance of Malaysian companies and tax aggressiveness, as the results might not reflect the extent of tax aggressiveness in Malaysia. As such, the study can help stakeholders such as policymakers and company management better understand the relationship between CSR performance and tax aggressiveness from a Malaysian viewpoint.

Fifth, policymakers and regulators are increasingly concerned about tax aggressiveness in Malaysia. The Edge Malaysia (2023) reports that the Malaysian government has not been collecting as much tax revenues as other South East Asian countries. A better understanding

of the relationship between CSR performance and tax aggressiveness could give policymakers insights into designing more effective policies to deter and minimise adverse tax planning strategies.

Last, this study uses verified CSR performance disclosures obtained from an independent third-party provider for its CSR performance scores to provide more reliable data and reduce self-biases in scoring the CSR performance (Creswell, 2014). Most prior studies in Malaysia use unverified CSR performance disclosure scores, which are self-collected data and might be prone to more bias (e.g. Hamid *et al.*, 2018; Mohanadas *et al.*, 2020; Rakia *et al.*, 2023). Using a reputable third-party data provider adds credibility and reliability to the study results as the CSR performance scores undergo rigorous procedures such as verification processes, percentile scoring and industry benchmarks. Moreover, in their study, the researchers stated that they are mindful of the unverified CSR performance disclosures made in annual reports (Mohanadas *et al.*, 2020). Additionally, in the earlier years before SRG was issued and enforced, researchers such as Mohanadas *et al.* (2020) commented that the quality and quantity of disclosures were low. This can make it harder to calculate the CSR performance scores and make them comparable among the companies. Furthermore, using combined CSR performance scores, which consider any controversies faced by the companies, provides for better and justifiable CSR performance scores that prior Malaysian studies (e.g., Hamid *et al.*, 2017; Mohanadas *et al.*, 2020) could not take into account.

1.6 Outline of the Thesis

Chapter 1 provides the aims, objectives, and motivations of the thesis. It also provides the background of Malaysia, the tax system, and why Malaysia was chosen as the ideal setting for the thesis. The contribution of the thesis is also given in this chapter.

Chapter 2 extensively reviews the literature on tax aggressiveness and CSR performance. It includes the definition, determinants, consequences of tax aggressiveness, and the development of CSR performance, definitions, and benefits of integrating CSR performance into companies' corporate strategies. The review also examines the relationship between CSR performance and tax aggressiveness – an ongoing debate on whether tax is part of CSR performance, or tax and CSR performance are substitutes. Some researchers allude to the complementary relationship between CSR performance and tax aggressiveness, while others consider a substitutive relationship between them or no relationship. The chapter reiterates the research questions raised in Chapter 1 and identifies the research gap that motivates and drives the research on CSR performance and tax aggressiveness from the context of Malaysia.

The theoretical framework in Chapter 3 discusses the shareholder and stakeholder theories used to form the thesis hypotheses. Based on shareholder theory, a positive relationship is expected. In contrast, a negative relationship is proposed using stakeholder theory. Thus, the thesis posits non-directional hypotheses about a relationship between tax aggressiveness and CSR performance and the individual dimension of CSR performance. Moreover, prior studies in Malaysia produce mixed results. Additionally, non-directional hypotheses are posited for the introduction of SRG and F4GBM Index on the relationship between CSR performance and tax aggressiveness. This approach is distinct from previous studies, which did not explore SRG or F4GBM as moderating interacting factors.

The methodology, sample selection, and data collection are described in Chapter 4. The chapter also defines the dependent, independent, and control variables used in the

thesis, and discusses the regression models employed to examine the relationship between CSR performance and tax aggressiveness.

Chapter 5 presents the study's empirical results and discusses the results. The first part reports the descriptive statistics, univariate, and variance inflation factor (VIF) results. The multiple regression results are then reported for all the thesis hypotheses, followed by the robustness test results.

Chapter 6 summarises the thesis findings and discusses the contribution of the study. The chapter also discusses the practical implications of the study, its limitations, and recommendations for future research.

The following chapter reviews the literature on tax aggressiveness and CSR performance and their relationship.

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

This chapter reviews prior studies to establish an empirical relationship between CSR performance and tax aggressiveness and to generate research questions for the thesis. Section 2.2 delineates definitions of various corporate tax strategies and overviews previous tax aggressiveness studies. Section 2.3 looks into the consequences and determinants of tax aggressiveness, and Section 2.4 discusses the relationship between CSR performance and tax aggressiveness. Section 2.5 provides an overview of the literature on CSR performance and tax aggressiveness in Malaysia. Section 2.6 discusses the research gap, and 2.7 summarises the chapter.

2.2 Definition of Tax Aggressiveness

2.2.1 Understanding the Terminology of Tax Aggressiveness

Tax is defined as "*a compulsory levy, imposed by the government or other tax-raising body, on income, expenditure or capital assets, for which the taxpayer receives nothing specific in return*" (Lymer & Oats, 2011, p.3). Section 3 of the Malaysia ITA 1967 defines tax as "a tax to be known as income tax shall be charged for each year of assessment upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia."

While companies have a legal obligation to fulfil their tax responsibilities, the actual amount of tax revenue received by the government is dependent on companies' tax strategies. Given that taxes constitute a substantial cost directly impacting profits, companies tend to proactively engage in tax planning to minimise these costs (Desai & Dharmapala, 2009). Sikka (2010) concurs that tax minimisation is a normal business practice; however, the strategy's

sophistication or aggressiveness is a cause for concern. Companies employ various methods to execute their tax minimisation strategies, as outlined in the existing literature on taxation, providing definitions for different approaches to reduce tax liability (Gribnau & Jallai, 2017; Hanlon & Heitzman, 2010; Hasseldine & Morris, 2013; Lanis & Richardson, 2012). In line with the literature, the OECD has defined several tax strategies, including tax planning, tax avoidance, aggressive tax planning, tax evasion, and tax aggressiveness (OECD, 2020).

The OECD defines tax planning as an "*arrangement of a person's business and/or private affairs to minimise tax liability*" (OECD, 2020, para-T). In a similar vein, Middleton and Muttonen (2020) describe tax planning as the strategic organisation of taxes to align with a company's objectives, aiming to legally and ethically reduce tax payments and secure tax benefits. Tax planning involves efficiently organising taxes to align with a company's strategy to legally and ethically reduce tax payments to obtain tax benefits.

Tax avoidance is defined as the legal arrangement of tax matters to reduce tax liability, usually contrary to the law's intent (OECD, 2020; para A). Some researchers have broadly defined tax avoidance as business transactions or activities that are strictly legal but usually contradict the intent of the law it is supposed to follow, aiming to reduce tax payment (Bird & Davis-Nozemack, 2018; Dyreng *et al.*, 2008; Hanlon & Heitzman, 2010; Middleton & Muttonen, 2020). In addition, EC (2012a) opines that tax avoidance involves a company exploiting the loopholes in tax law for its benefit. The extent of exploitation depends on how aggressive the company's tax strategy is (Hanlon & Heitzman, 2010). Thus, a key characteristic of tax avoidance is that they reduce tax liability through strictly legal arrangements that contradict the law's intent (EC, 2012a).

In contrast to legitimate tax planning, tax evasion is an illegal act that involves illicit transactions or arrangements whereby taxpayers ignore or hide their tax liability by not disclosing or under-declaring their income from the tax authorities (OECD, 2020, para E). It is an unethical and deliberate act of violating tax laws and rules (Fisher, 2014; Gribnau & Jallai, 2017; Kasipillai *et al.*, 2003). Bird and Davis-Nozemack (2018) and Sikka (2010) deduce that tax evasion involves deceptive actions of concealing and de-structuring or altering the nature of a transaction to reduce tax payments, which is unacceptable, punishable (Fisher, 2014) and immoral (Kirchler *et al.*, 2001, as cited in Bird & Davis-Nozemack, 2018).

Aggressive tax planning is defined as taking advantage of a tax system's technicalities or mismatches between two or more tax systems to reduce tax liability (European Commission, 2012b). This practice involves exploiting loopholes in tax law to reduce tax obligations through arrangements that may be legal but contradict the spirit of the law (Mileusnic, 2023).

Tax aggressiveness is broadly defined by Lanis and Richardson (2012, p.86) as "the downward management of taxable income through tax planning activities. It encompasses tax planning activities that are legal or may fall into the grey area, as well as illegal activities". This approach entails structures and transactions that may be inconsistent with the law's spirit to reduce tax liability (Bird & Davis-Nozemack, 2018; Lanis & Richardson, 2013).

This thesis adopts the definition of tax aggressiveness provided by Lanis and Richardson (2012), characterising it as tax strategies that involve legal tax planning or may fall into the grey area, including illegal activities. Following prior studies, the thesis incorporates tax avoidance and tax evasion as components of tax aggressiveness. For example, Col and Patel (2019), Hanlon and Heitzman (2010), Whait *et al.* (2018), and the EC (2012a) describe

the practice of MNCs establishing subsidiaries or headquarters in lower tax jurisdictions to shift profits effectively to countries with the lowest tax regime – as exemplified by Starbucks, Google, and Apple, as tax aggressiveness or tax avoidance.

However, some companies pay higher taxes than the statutory tax rates (Dyrenge *et al.*, 2008; Wahab *et al.*, 2022), and some companies do not fully utilise tax shelters despite the low cost and ease of using them (Desai & Dharmapala, 2006). This tax under-sheltering puzzle implies that corporate tax behaviour is complex due to the risk associated with tax aggressiveness. Shareholders might not want management to indulge in this activity despite the higher after-tax returns, as they do not want to create an opportunity for opportunistic managers to divert company resources for their use (Desai & Dharmapala, 2006). Another reason is the reputational cost of tax aggressiveness (Gallemore *et al.*, 2014). Companies do not want to lose the trust of their stakeholders, especially the customers, if their misdeed is made known to the public. This can be seen in the case of Starbucks, which reacted to its act of unethical criticism by paying an agreed-upon tax regardless of its profitability (Davis *et al.*, 2016). In the above discussion, companies' tax strategies can be categorised based on whether they abide by the letter of the law, which is legal or go against the letter of the law, which is illegal.

2.2.2 The Ethics Debate on Tax Aggressiveness

Another critical distinction made on companies' tax planning strategies is whether the strategies undertaken by companies are considered to be ethical or unethical. Tax evasion is considered illegal and unethical as it goes against the letter of the law, and it involves intentionally concealing and deceiving tax arrangements (Payne & Raiborn, 2018). Tax

aggressiveness is considered unethical as companies have planned their business transactions in a manner that contradicts the spirit of the law to reduce tax liability (Bird & Davis-Nozemack, 2018; Middleton & Muttonon, 2020; Payne & Raiborn, 2018). Ding *et al.* (2022) and Payne and Raiborn (2018) stress that following the law does not necessarily make the outcome ethical, as the benefits received by companies may exceed the harm caused to society. Thus, society is marginalised because the government is unable to provide essential services to the public due to lower tax revenue. As such, not paying the right amount of tax is immoral as others have to fill the gap by contributing more to ensure that society is equipped with adequate and ongoing social amenities (Bird & Davis-Nozemack, 2018). Therefore, Payne and Raiborn (2018) expound that companies go against the implicit contract with society to pay their fair share of taxes when they engage in tax aggressiveness.

Under the CSR performance Pyramid by Carroll (1991), ethical responsibility involves companies undertaking activities that society needs even though they are not required by law (refer to Appendix 5 p. 253 for Carroll's CSR Pyramid). A social contract exists between companies and society, and in pursuing their business operations, companies have to abide by legislation and moral values (Carroll, 2020). Companies must adopt a moral stance, consider their stakeholders' needs, and fulfil them even if the laws do not require them (Dmytriyev *et al.*, 2021; Freeman, 2010). Carroll *et al.* (2018) surmise that ethical responsibility entails companies surpassing the law's requirements and striving to maximise profits. This involves a company encompassing expectations, norms, and standards that consider what stakeholders constitute just, fair, and proper. As such, if tax is considered part of CSR performance, it makes sense to assume that not paying one's fair share of taxes is unethical, as CSR performance involves ethical responsibility.

Literature suggests that some do not perceive paying their fair share of taxes as being immoral or unethical as they consider tax aggressiveness to be legal (e.g., Davis *et al.*, 2016; Dowling, 2014; Fallan & Fallan, 2019). There is a perspective that companies are justified to minimise their tax legally and use the tax savings to promote social welfare (Davis *et al.*, 2016). Additionally, some believe managers have a fiduciary duty to maximise shareholder wealth by reducing tax payments within the legal framework (Dowling, 2014; Fallan & Fallan, 2019). These opinions are generated by the “blurred boundaries of the legal framework,” which leaves a morally free space for managers and companies to act upon (Scarpa & Signori, 2023, p.151). Milton Friedman reiterates that minimising tax payment within the law is the only corporate responsibility of a company (Kaptein, 2024), thus substituting CSR performance .

Furthermore, Scarpa and Signori (2020) stress that companies should not be restricted by moral values on utilising tax loopholes to minimise tax liability, as no one should be made to pay higher taxes than their actual taxes legally (Hasseldine & Morris, 2013; Windsor, 2017). Hasseldine and Morris (2013, p.12) aptly state, "*There is no need for a distinction between the 'letter' of the law and the spirit of the law because there is no need to look any further than the actual legislation.*" They clarify that the imposition of tax can only be through legislation, and only the court should be entrusted to interpret the intention of the law. Wahab *et al.* (2022) surmise Hasseldine and Morris's (2013) clarification to imply that companies are free to make their decisions on tax strategies and CSR performance separately. Wahab *et al.* (2022) propose that CSR performance and tax avoidance strategies are distinct business decisions.

Therefore, whether a company's tax aggressiveness strategy is ethical or unethical depends on society's perception of CSR performance and tax aggressiveness. If society views the fiduciary duty of companies as only towards shareholders, they will not view companies'

tax aggressiveness as unethical. On the contrary, if companies are less tax aggressive and pay more taxes than required by law, their behaviour is perceived as unethical. This is because they are transferring shareholders' wealth to regulators and other stakeholders (McGee, 2010, as cited in Scarpa & Signori, 2020). Companies, therefore, have a duty to maximise shareholders' wealth through every available legal avenue (Dowling, 2014; Fallan & Fallan, 2019). However, if society believes that companies have a social responsibility towards all stakeholders, then reducing tax payments just for the sole purpose of servicing shareholders' needs cannot be accepted morally (Christensen & Murphy, 2014; Fisher, 2014; Gribnau & Jallai, 2017; Payne & Raiborn, 2018).

In short, companies' view of tax aggressiveness can significantly influence their tax planning decisions. If companies view tax aggressiveness as socially irresponsible, then companies acknowledge and value stakeholders' perspectives on tax aggressiveness, understanding that these views can significantly influence a company's decisions regarding tax planning. This is because stakeholders who perceive tax aggressiveness as socially irresponsible may take actions that can negatively impact companies. Conversely, if companies view tax aggressiveness as aligned with shareholder interests, they may consider tax and CSR performance as substitutes and use the tax savings to promote social welfare.

2.3 Consequences and Determinants of Tax Aggressiveness

2.3.1 Consequences of Tax Aggressiveness

Tax aggressiveness has been an ongoing universal issue since the introduction of tax laws (Uadiale *et al.*, 2010). Previous studies on the effects of tax aggressiveness and corporate behaviour have provided some interesting insights. Likewise, in any business decision, there are risks and benefits involved in tax aggressiveness. Desai and Dharmapala (2009) and Wilson

(2009) show that companies' tax aggressiveness increases their market value and helps generate a positive abnormal return when strong governance exists. Their finding indicates that companies may persist in tax aggressiveness even in the presence of robust governance if a clear objective, such as utility maximisation, remains a driving force.

Desai and Dharmapala (2006) find that companies that engage in tax aggressiveness report better accounting outcomes, for example, improvement of cash flow through tax savings (Wilson, 2009). When Google Incorporated reduced its tax payment by USD 3.1 billion over three years, simultaneously, its cash flow improved by USD 3.1 billion during that period (Drucker, 2010). However, tax aggressiveness may elevate financial and administrative complexity, potentially leading to confusion among investors regarding companies' financial performance (Balakrishnan *et al.*, 2019). This situation can arise when companies establish subsidiaries in various countries for diverse activities. Some studies highlight that companies' existence could be jeopardised if investors suspect that these companies are not contributing their fair share of taxes to the government (Dyreng *et al.*, 2016; Preuss, 2010). Hanlon and Slemrod (2009) find that companies' stock prices experience a drop when the public becomes aware of companies' aggressive tax strategies.

According to Gallemore *et al.* (2014), Hanlon and Heitzman (2010) and Lanis and Richardson (2015), companies that continuously record a lower *ETR* compared to the statutory tax rate and higher *BTaxDiff* can attract the attention of the tax authority to conduct a thorough tax audit. Additionally, media attention will also be drawn to these companies. Menicacci and Simoni (2024), Qi *et al.* (2023), and Zhang and Chen (2020) suggest that media as a powerful tool can bring the attention of stakeholders to tax-related information which companies prefer not to highlight. Starbucks' case is a good example as the company suffered

reputation damage when the news of its tax misbehaviour was made public, resulting in consumers boycotting the coffee retailer (Col & Patel, 2019). To regain their customers' trust and avoid further scrutiny from the tax authority, Starbucks voluntarily paid an additional tax of £20 million to the UK government (Christians, 2013).

In contrast, Gallemore *et al.* (2014) find that companies do not face high reputation costs due to the companies' aggressive tax strategy. Their study finds that companies face a temporary decline in stock price, which reverses itself within thirty days. The results could be attributed to how stakeholders view tax aggressiveness and its effect on reputation. As Gallemore *et al.* (2014, p.104) observed, "*Reputation is a multifaceted construct associated with several parties*". Some stakeholders might prefer companies to make some risky decisions, while others view tax aggressiveness as misconduct that is not as grave as other corporate misconduct (Gallemore *et al.*, 2014).

2.3.2 Determinants of Tax Aggressiveness

Prior literature shows that tax aggressiveness is affected by several factors. These are discussed as follows.

1. Ownership

Although ownership structure is considered a predictor of tax aggressive behaviour of companies, prior studies show that the impact of ownership structure on tax aggressiveness is inconclusive. Chen *et al.* (2010) find that family-owned companies are less likely to engage in tax aggressiveness due to fear of reputation damage, which might cause stock price discounts by outside shareholders. In contrast, Demirci (2020) provides evidence of the tax aggressiveness of private family-owned companies, as private family-owned companies usually have a large number of shares, and they may benefit more from tax savings. In

addition, Badertscher *et al.* (2013) find that companies with concentrated ownership are less tax aggressive than those with dispersed ownership. Further, Khurana and Moser (2013) find that companies owned by long-term institutional shareholders are less prone to tax aggressiveness. Long-term institutional shareholders act as an alternative corporate governance mechanism (p.114) to reign in tax aggressiveness and reduce the likelihood of managerial opportunistic behaviour, thus improving transparency.

Rahman *et al.* (2018) note that GLCs are less likely to engage in tax aggressiveness due to the government's social and political objectives. Similar results are observed in a study by Tansuria and Nelwan (2022), which reveals that companies are less likely to engage in aggressive tax planning as government ownership increases. In contrast, Wahab *et al.* (2017) and Ajili and Khlif (2022) provide empirical evidence that companies with political connections tend to avoid taxes.

2. Size and leverage

Firm size is another important firm-level factor that affects tax aggressiveness (Laguir *et al.*, 2015; Lanis & Richardson, 2015; Minnick & Noga, 2010; Rego, 2003; Wilson, 2009). Laguir *et al.* (2015), Minnick and Noga (2010), and Rego (2003) find that large companies are less tax aggressive as these companies attract more attention and scrutiny from the government and society (Mohanadas *et al.*, 2020; Zimmerman, 1983). Conversely, Lanis and Richardson (2015) and Wilson (2009) find that large companies are more tax aggressive as these companies have greater economic resources to influence the regulatory and political process and invest in proper tax planning strategies. Large companies have the means and resources to hire professional consultants to fight their cases in the event of regulatory actions.

In addition, firm leverage is found to be related to tax aggressiveness (Barclay *et al.*, 2018; Faulkender & Smith, 2016). Highly leveraged companies can reduce taxable income as the cost of debt is tax deductible (Badertscher *et al.*, 2013; Mills *et al.*, 1998). Therefore, these companies have less incentive to be tax aggressive (Badertscher *et al.*, 2013; Graham & Tucker, 2006). Conversely, some companies are encouraged to use more debt financing instead of equity financing for their business operation to enjoy the interest payment deductibility from their profit, thus indulging in tax aggressiveness. According to Badertscher *et al.* (2010), some highly leveraged companies are motivated to engage in tax aggressiveness as the tax savings can be used for debt payment.

3. Mechanism of corporate governance

The literature points to corporate governance mechanisms to reduce conflict of interest between management and stakeholders by minimising aggressive tax policies (Amri *et al.*, 2023). Ortas and Gallego-Alvarez (2020) concur with Desai and Dharmapala (2006) that companies with solid governance mechanisms are less likely to engage in tax aggressive strategy. Several studies find the association between individual characteristics of the board of directors, such as gender diversity, independent directors, CEO duality, and board size with tax aggressiveness of the companies (Adhikari *et al.*, 2019; Higgins *et al.*, 2015; Lanis & Richardson, 2011; Minnick & Noga, 2010; Okoh & Ofor, 2022; Richardson *et al.*, 2016).

Adhikari *et al.* (2019) and Richardson *et al.* (2016) find companies with women directors on board to be less tax aggressive as women are perceived to be risk-averse and conservative in their decision-making, trustworthy, comply with rules and regulations (Higgins *et al.*, 2015), and possess good monitoring skills (Lanis & Richardson, 2017). Furthermore,

female directors bring different viewpoints, facilitating more informed decisions that enhance the company's transparency, thus reducing the likelihood of engaging in tax aggressiveness.

Lanis and Richardson (2011) and Minnick and Noga (2010) show that companies with more independent directors are less likely to be tax aggressive as they bring vast knowledge from their industry and experience to better understand and consolidate tax strategies. Richardson *et al.* (2013) find that companies with a higher ratio of independent directors, adequate risk management systems, and robust internal control systems tend to be less tax aggressive. Similarly, Kesumaningrum *et al.* (2023) argue that independent directors with tax experience and expertise can influence tax aggressiveness. However, Okoh and Ofor (2022) find that Nigerian companies that have independent directors with financial expertise are more inclined to engage in tax aggressiveness.

Furthermore, prior studies report board size as another determinant of tax aggressiveness (Minnick & Noga, 2010; Salihu & Kawi, 2021), as the board of directors are the ones who make strategic decisions for companies (Mkadmi *et al.*, 2022). Salihu and Kawi (2021) find that companies with large board sizes are less tax aggressive. Menchaoul and Hssouna (2022) posit that companies with few board members are more tax aggressive, supporting Salihu and Kawi (2021). According to Wahab and Holland (2012), large boards can contribute to better decision-making as there is an increase in the range of skills and experience among the board of directors, making them more capable of securing resources, thus restricting CEO domination effectively. Having more board members can also contribute to better tax risk assessment and the detection of risky tax strategies (Menchaoul & Hssouna, 2022).

Contrarily, the studies by Khan *et al.* (2022) and Iazzi *et al.* (2023) show a positive relationship between board size and tax aggressiveness. They find that the larger the board size, the higher the level of tax aggressiveness, as it is more difficult to share responsibility in internal control. Similarly, Minnick & Noga (2010) find that smaller boards enhance tax management compared to larger boards, as large boards can cause miscommunication and coordination problems, hindering decision-making processes. Consequently, making it harder to reach a consensus (Minnick & Noga, 2010). Moreover, in a large board, when a greater number of members exhibit risk-averse behaviour and prioritise self-interest policies, such as incentives or benefits, they tend to influence the formulation of company policies and strategies with the primary goal of maximizing profits (Hoseini *et al.*, 2019). This influence often leads to the adoption of tax aggressive practices (Hoseini *et al.*, 2019).

4. CEO power

Another determinant of tax aggressiveness is the power of the CEO. CEO duality enhances the power of the CEO as the CEO also functions as chairperson of the board (Lanis & Richardson, 2012; Minnick & Noga, 2010; Zhou, 2011). A company with CEO duality is less transparent as power is concentrated in the hands of one person (Halioui *et al.*, 2016). The concentration of power often leads CEOs to act for their own best interests at the expense of stakeholders' interests (Minnick & Noga, 2010; Lanis & Richardson, 2012; Zhou, 2011). In addition, CEO duality can influence the board's composition (Jensen, 1993) and strengthen the CEO's relationship with the firm's board members, leading to the board losing its independence (Zhou, 2011). The duality of roles simplifies the determination of companies' tax policies (Kolias & Koumanakos, 2022), as reducing the board's governance role facilitates the approval process for tax aggressive planning strategies (Iazzi *et al.*, 2023). In contrast, Kesumaningrum

et al. (2023) state that CEO duality is negatively associated with tax aggressiveness. Aggressive tax planning may harm corporate reputation, so the CEO and board of directors usually try to avoid tax aggressiveness (Kesumaningrum *et al.*, 2023).

5. *Political connections*

Politically connected companies may be more tax aggressive due to special rights and less audit risks (Wahab *et al.*, 2017). Adhikari *et al.* (2006) and Tee *et al.* (2022) find that Malaysian companies with strong political alliances are likely to engage in tax aggressiveness compared to those companies without political connections. A study by Tee *et al.* (2022) on 691 Malaysian companies from 2002-2018 shows that firms with political connections and GLC with longer spans of connection have a higher ability to reduce their effective tax rates as longer timespan strengthens the ties of companies with senior politicians. Politically connected companies enjoy immense benefits such as preferential credit access (Kallias *et al.*, 2022), priority to government project selection and tax reduction (Chen *et al.*, 2020). Consequently, these companies can lobby for generous tax concessions from the government.

Politically connected companies may face the burden of disclosure transparency and become less tax aggressive (Firmansyah *et al.*, 2020). However, Yulistia *et al.* (2020) suggest that political ties can help companies obtain government contracts but have no impact on tax aggressiveness.

6. *Involvement in CSR performance*

In addition to the previously discussed factors influencing tax aggressiveness, CSR performance is another determinant of tax aggressiveness. Literature shows that socially responsible companies are likely to exhibit lower tendencies towards engaging in tax aggressiveness (Col & Patel, 2019). In contrast, unethical and irresponsible companies are

more prone to adopting tax aggressive strategies (Avi-Yonah, 2008; Middleton & Muttonen, 2020). Contrarily, Sim *et al.* (2023) find firms with high CSR performance scores display more signs of tax aggressiveness, as these companies may become more tax aggressive to mitigate the cost of CSR performance. The inconclusive results raise the question of whether tax responsibility should be regarded as an integral part of CSR performance or viewed as a substitute for CSR performance. The next section offers a comprehensive overview of the literature surrounding CSR performance.

2.4 Corporate Social Responsibility

2.4.1 Definitions and Concepts of CSR Performance

Even though CSR performance has been around for a while, it does not have a universally adopted definition. Carroll (1979, 2008, 2020) defines CSR performance as the economic, legal, and ethical expectations that society has of organisations. Barnett (2007, p.801) defines CSR performance as *"a discretionary allocation of corporate resources towards improving social welfare that serves as a means of enhancing relationships with key stakeholders."* Bursa Malaysia has defined CSR as business practices that are transparent and open, encompassing ethical values and respect for employees, the environment, communities, shareholders, and other stakeholders (Bursa Malaysia, 2006; Refer to Appendix 4 p. 252 for Summary of CSR Performance). In 2011, the EC (2011, p.6) defines CSR performance as *"the responsibility of enterprises for their impacts on society"*. This definition by the EC changes CSR performance from voluntary activities of companies to CSR performance being a responsibility of the companies. Despite its various definitions, one common implication is for companies to shoulder a wider responsibility towards society and stakeholders by taking into consideration

the social and environmental impact of corporate activities when making business decisions (Adams & Zutshi, 2004).

In earlier years, companies' CSR performances were focused on social welfare, and CSR performance was perceived as a public relations tool for improving an organisation's image and performance (Hoffman, 2007). From 1970 to 1990, companies shifted their objectives from sharing profits with the community through philanthropic activities and using philanthropic CSR performance for profit-making, recognising the role of CSR performance in connection to financial performance (Moura-Leite & Padgett, 2011). In the 2000s, the focus of CSR performance shifted to being used as a strategic core business function to produce financial and social gain (Porter & Kramer, 2002). Furthermore, with globalisation, businesses are rapidly moving towards international trade and cross-border transactions, and as businesses expand, more resources are used. Therefore, environmental and social awareness increased as globalisation intensified, and the call for responsible business practices among companies increased not to focus only on shareholders' wealth but also on the needs of the broader society (Arvidsson, 2010).

Whait *et al.* (2018) remark that CSR performances in companies stem from the recognition that they must expand their focus beyond mere profit maximisation and enhancing shareholder wealth to include considerations for the social, economic and environmental aspects. In order to abide by CSR performance, companies must balance the benefits between shareholders and other stakeholders (Carroll, 1991, 2020). This places the responsibility for the impact of business activities on society on companies' top management. Thus, CSR performance should be integrated into companies' strategies and policy-making decisions. In addition, the World Business Council for Sustainable Development (WBSCD,

2000) suggest that CSR performance should be an ongoing commitment by companies to boost a country's economic growth and improve the social welfare of its workers and society. Nevertheless, the discussion on CSR performance is not limited to the moral obligations of companies to base their decision-making on the welfare of society (Adela *et al.*, 2023), as companies are more likely to use CSR performance as a strategic tool to improve their financial performance (Hardeck *et al.*, 2023).

The definition of CSR performance in this thesis aligns with the definition provided by both Bursa Malaysia and the EC. It is defined as business practices that are transparent and open, encompassing ethical values and respect for employees, the environment, communities, shareholders, and other stakeholders, with companies being responsible for their business impact on society. This study used CSR performance scores calculated by ASSET4 (Refer to Chapter 1 p. 18). In the exploration of the individual dimension of CSR performance within the thesis, environmental, social, and governance (ESG) scores serve as key metrics.⁹ CSR performance and ESG have been used interchangeably in prior research, as both CSR performance and ESG fall under the umbrella of sustainability (Lutkevich, 2023). CSR performance is a sustainability strategy wherein companies integrate environmental and social considerations into their overall business approach. In contrast, ESG is a sustainability assessment that evaluates a company's sustainability initiatives (Lutkevich, 2023; Worldfavor, 2023). Consequently, CSR performance efforts are refined and fit into the ESG framework (Lutkevich, 2023; Worldfavor, 2023). These ESG activities are then incorporated as disclosure of CSR performance on the company's website, Integrated Report or ESG Report, to add credibility to the company's CSR performance (Lutkevich, 2023).

⁹ ESG Metrics – Detailed explanation is in Chapter 4.

2.4.2 CSR Performance and Tax Information Disclosure

Companies can communicate their CSR performance to society through disclosures in various formats, including triple-bottom-line reporting, sustainability reporting, and non-financial reports. Disclosures on CSR performance are essential as they contain information about companies' ethical values and social responsibilities, which are construed as part of the social contract between companies and society (Whait *et al.*, 2018). Carroll's CSR pyramid also stresses that companies should be good corporate citizens, contribute to society, uphold ethical standards, comply with the law, do what is right and fair, and also be profitable (Carroll, 1991). Consequently, disclosures on CSR performance broaden the scope of accountability for companies, extending beyond the mere issuance of financial statements to their shareholders.

Despite the importance and benefits of disclosure on CSR performance, it has not been made compulsory in many countries (Roca & Searcy, 2012). Before the 1960s and 1970s, there were no common standards or guidelines for issuing disclosures on CSR performance (Wen & Deltas, 2022). In the 1980s, sustainable development was put on the global agenda when society began to voice their concern about the increased deterioration of the environment and natural resources and its impact on economic, and social development (Wen & Deltas, 2022). A few guidelines have been set up in response: Triple Bottom Line reporting in 2000, the United Nations (UN) Global Compact, and GRI (Chen & Bouvain, 2009). Among them, GRI guidelines have become the most popular and widely used reporting framework (Dissanayake *et al.*, 2016), with over 10,000 companies in more than 100 countries using GRI as a reporting standard (Molfetas, 2023). Malaysia is one of the countries that adopted GRI, and GRI

standards are incorporated in the SRG 2015, the first edition of the SRG (Bursa Malaysia, 2015).

Recognising the significance of corporate tax contribution to society and the growing awareness of tax-related practices, such as aggressiveness, avoidance, and sheltering (Lanis & Richardson, 2011; Huseynov & Klamm, 2012; Mao & Wu, 2019), GRI took a proactive step in 2015. It introduced the G4 sustainability requirement, mandating the inclusion of tax payments and tax strategies as part of disclosures on CSR performance from that year onwards (GRI, 2013). More recently, GRI has further introduced the GRI 207 Tax (GRI, 2019). This comprehensive guideline, effective from 1st January 2021, outlines specific requirements for tax information to be integrated into CSR performance reports. This guideline compels companies to disclose their approach to taxation, including tax strategy, governance, associated concerns, and additional reporting information for MNC country-by-country reporting.

Various stakeholders, from non-governmental organisations (NGOs) to consumers, are clamouring for more information on companies' tax strategies to see whether companies are actually paying their fair share of taxes and are socially responsible (Avi-Yonah, 2008, 2009; Nkobane, 2024). Investors are also interested in information on companies' tax strategies, as tax savings can increase shareholder wealth (Hanlon *et al.*, 2014). In response to the calls from the OECD, EC, GRI, and stakeholders to be more transparent in their tax matters, some companies have been disclosing tax-related information in their disclosures on CSR performance lately to enhance their corporate reputation (Hardeck *et al.*, 2019, 2023; Inger & Stekelberg, 2022).

Mitchell (1997) proposes that the attributes of stakeholders significantly impacting companies' managerial decisions include power, legitimacy, and urgency. De La Cuesta-Gonzales and Pedro (2019) extend this concept to companies' voluntary tax disclosure, attributing power to government and regulators, legitimacy to the media, and pressure to other stakeholders. Among these groups, investors stand out as the most influential in driving companies towards more responsible tax behaviour, as evidenced by the increasing number of companies publishing their total tax contributions (Hardeck *et al.*, 2023).

Despite stakeholders such as NGOs, scholars, tax advisors, and MNCs considering tax as part of CSR performance (De La Cuesta-Gonzales & Pedro, 2019), the inclusion of tax information in CSR performance reports remains limited. Davis *et al.* (2016) examine 40 reports on CSR performance of US companies, and find that almost half of these reports do not have any tax information. Using qualitative analysis, Reiter (2020) finds that out of 218 Fortune 500 companies, only 47 issues detailed tax information in their disclosures on CSR performance. Reiter (2020) deduces that most companies still do not disclose much tax information despite society's widespread concern about tax aggressiveness. Hardeck and Kirn (2016) find that companies in the UK provide comprehensive tax-related information in their disclosures on CSR performance, while tax-related disclosures are low for both German and US companies. According to Hardeck and Kirn (2016), since the sample firms faced similar disclosure obligations in all three countries during the examination period, it might be fair to assume that differences in cultural and social norms can particularly impact tax disclosure. The importance of legalistic views and tax secrecy on taxation in Germany can be seen in companies' focus on technical information that is generally disclosed in the annual report. This is combined with a low number of commitments to a socially responsible approach to

taxes, especially in their silence on commitments to tax transparency. A low level of reporting in the US and frequent lobbying activities for lower taxes align with the prevalent view of taxes as harmful to social welfare. Meanwhile, the UK, which has huge pressure exerted by politicians, media, non-governmental organisations, and the public, seems to have encouraged firms to disclose a wide range of tax information.

In examining companies across 24 countries, Hardeck *et al.* (2019) conclude that cultural differences impact the level of tax information in disclosures on CSR performance. Companies in countries with low power differentiation are likely to disclose more tax information to show that they are responsible corporate citizens. They find that most companies in Spain, Korea, and Italy disclose significant information on tax matters. In contrast, Hong Kong and the US are banded among the lowest percentages of disclosures. Hardeck *et al.* (2023), in another study identify socially responsible tax disclosure, examine 2981 CSR performance reports across 22 countries and find that companies' tax disclosure is more symbolic in nature. They find no strategic outline of actual responsible tax policies being disclosed. Additionally, only companies from liberal economies use tax disclosure to cover up their tax aggressiveness.

Faundez-Ugalde *et al.* (2022) analyse tax disclosures of listed companies in Chile against GRI 207 issued since 2019, which provides detailed information on what to disclose on tax matters in disclosures on CSR performance. Their finding indicates that tax information is obscure and lacks transparency compared to the requirement of GRI 207. Blaufus *et al.* (2023) examine tax disclosures of UK companies listed on the FTSE 100 and FTSE 250. They categorised the companies as responsible taxpayers and tax planners based on companies' tax disclosures. Responsible taxpayers refer to companies that view tax payments as a

contribution to society, whilst tax planners see tax payments as a cost. They find that companies manage their tax information in disclosure on CSR performance to influence stakeholders' opinions as long as there is a low possibility of stakeholders detecting their distortion. This strategy is used regardless of whether the companies consider themselves responsible taxpayers or tax planners. Companies disclose actual tax information only if they are under regulators' scrutiny or monitored by analysts (Blaufus *et al.*, 2023).

Adams *et al.* (2022) observe that less tax aggressive companies are more transparent about their tax information in disclosure on CSR performance, whilst tax aggressive companies disclose less information on tax matters in their disclosures on CSR performance. This finding suggests that companies with lower tax aggressiveness include tax information in their disclosures on CSR performance to signal to stakeholders their commitment to being responsible corporate citizens. In contrast, tax aggressive firms provide fewer disclosures to potentially present a more favourable image to stakeholders and avoid increased transparency costs, such as reputational loss or regulatory scrutiny, which may arise if they attract the attention of regulators. Some companies adopt a strategy of issuing more descriptive, less easily verifiable, and using "more justifications-related words in their tax disclosures" to legitimise their position on tax aggressiveness (Kao & Liao, 2021, p.60), potentially leading to confusion among stakeholders.

2.4.3 Prior Research on CSR Performance

Over the years, research on CSR performance has garnered the attention of academics from business, management, and accountancy. This section provides an overview of prior CSR studies worldwide, while CSR studies specific to Malaysia are discussed in detail in Section 2.6 p. 75. Prior research on CSR performance covers the level of disclosures on CSR performance

(Bowman & Haire, 1976; Clarkson *et al.*, 2008; Hu *et al.*, 2018; Hummel & Schlick, 2016; Mills *et al.*, 1998; Nazari *et al.*, 2017; Othman *et al.*, 2011) and the implication of engaging in CSR performance (Adams & Zushi, 2004; Dhaliwal *et al.*, 2012; El Ghouli *et al.*, 2011; Kim *et al.*, 2014). Hummel and Schlick (2016) study European companies and find that companies with a strong CSR performance issue higher-quality disclosures and low-quality disclosures when CSR performance is low (Hummel & Schlick, 2016). Nazari *et al.* (2017) study activities on CSR performance and the level of disclosures on CSR performance in large companies in the United States, and find a positive relationship between the activities and the level of disclosure of CSR performance. In another study conducted by Clarkson *et al.* (2008) on companies involved in the most polluting industries from the USA, they find that the environmental disclosures reflect the environmental performances of the companies. A Malaysian study by Othman *et al.* (2011) focusing on companies operating in the industrial product, property and plantation sectors, known for their substantial environmental impact, shows a positive correlation between the disclosure of CSR performance and the actual CSR performance of these companies. These research findings support the notion that the extent of disclosure on CSR performance reflects a company's CSR performance. Nevertheless, other studies reveal the presence of potential biases, suggesting that companies may tend to accentuate positive and favourable news while downplaying or minimising the visibility of negative information (Nik *et al.*, 2003; Owen *et al.*, 2000).

The literature on CSR performance also provides empirical evidence highlighting the influence of disclosure on CSR performance in various aspects, including analyst forecast accuracy, firm' value, reputation, and cost of equity. Dhaliwal *et al.* (2012), using samples from 31 countries, show that companies that issue standalone disclosures on CSR performance are

associated with less error in analyst forecasts, especially in stakeholder-orientated countries such as France, Germany, Portugal, Sweden, and Finland, where social performance has more effect on companies' financial performance. In addition, disclosures on CSR performance also help to offset the negative impact of the lack of transparency in financial reports. In a nutshell, disclosures on CSR performance complement financial reports. In contrast, Ioannou and Serafeim (2015) find that analysts are more pessimistic in their forecasts of companies with high CSR performance disclosures in the initial years, but over time, the forecast improves.

Kim *et al.* (2012) examine the association of CSR performance and earning quality and find that companies rated as being socially responsible are less likely to be involved in earnings management and able to mitigate the risk of stock price crash (Kim *et al.*, 2014) and enjoy a lower cost of equity (El Ghoul *et al.*, 2011). Kansal and Joshi (2014) find that Indian companies engaging in CSR performance record a higher market value, higher investor confidence, and better reputation and goodwill. Tanaya *et al.* (2023) find that participating in CSR performance significantly affects the value of Indonesian-listed companies. Using FTSE 350 companies, Li *et al.* (2018) provide evidence that British companies with better CSR performance improve their firm value. Nevertheless, a counterintuitive finding reveals a negative relationship between disclosures on CSR performance and companies' market value during financial crises (Buchanan *et al.*, 2018). Specifically, companies with initially high CSR performance and market value prior to financial crises tend to undergo a more pronounced decline in their market value during such periods. This phenomenon is attributed to the perceived overspending on CSR performance by these companies (Buchanan *et al.*, 2018).

Disclosures on CSR performance have also been identified as contributing to enhancing a company's corporate image and bolstering credibility (Pfau *et al.*, 2008).

Additionally, these disclosures play a vital role in safeguarding companies' reputation during adverse events, such as product recalls (Minor & Morgan, 2011), and serve as a mechanism for attracting and retaining high-talented employees (Adams & Zutshi, 2004; Riordan *et al.*, 1997). Further, companies leverage disclosures on CSR performance as an evaluative tool to assess the potential environmental and societal impacts of their business activities. This proactive approach enables companies to identify and address potential issues, demonstrating a commitment to responsible practices (Roa *et al.*, 2012).

Moreover, the literature reveals that mandatory disclosure of CSR performance is linked to stock prices. Guo *et al.* (2022) discover a negative correlation between mandatory disclosure of CSR performance and stock prices in Chinese companies following the implementation of mandatory reporting on CSR performance. The findings suggest that management opportunistic behaviour becomes less tenable under mandatory disclosure, characterised by an improved information environment. This observation is reinforced by Chen *et al.*'s (2018) research, which indicates that companies subject to mandatory disclosure on CSR performance tend to report lower profitability due to heightened CSR performance-related expenditures, particularly in areas like environmental protection. The imposition of mandatory CSR performance creates increased social and political pressures, compelling companies to augment CSR performance spending to address environmental and social dimensions, such as employee welfare (Chen *et al.*, 2018).

More recently, academic discourse has highlighted the significant relationship between CSR performance and tax responsibility. Within this discourse, a particular strand of scholarly work asserts that contemporary businesses have a fundamental social responsibility in the form of fulfilling their tax obligations (Lanis & Richardson, 2013; Sikka, 2010).

Conversely, an alternative perspective suggests a substitution relationship between CSR performance and tax responsibilities. Given the advantages that companies derive from CSR performance, it is crucial to delve into the interplay between taxation and CSR performance and to analyse how these dynamics shape companies' tax strategies.

2.5 Tax Aggressiveness and CSR Performance

2.5.1 Tax as Part of CSR Performance

Companies can contribute to society by embedding CSR performance in their corporate strategy. For example, activities such as scholarships, donations, staff welfare, and environmental protection are ways companies can contribute to society. Additionally, contributing to society extends to fulfilling tax obligations to the government by paying their fair share of taxes to provide amenities and develop the country. While both CSR performance and tax provide benefits to society, the relationship between them can be complex as they can be substitutive or complementary. The outcome of the relationship depends on whether companies are more interested in shareholders' wealth maximisation or other stakeholder interests.

Tax payment is a legal obligation that companies must comply with as part of their social contract with the governments and the broader society (Jones *et al.*, 2017). Consistent with this view, Christensen and Murphy (2004, p.37) described tax as the lifeblood of social contract, underscoring their indispensable role in enabling governments to deliver essential services and goods to the community—a testament to the critical significance of taxation. Consequently, it becomes imperative for companies to fulfil their role by contributing their equitable portion of taxes (Dowling, 2014). One of the fundamental avenues through which

companies can actively engage with society is through the fulfilment of their tax obligations (Christensen & Murphy, 2004; Nkobane,2024). Tax payment and CSR performance are complementary when companies consider tax as part of CSR performance (Jemiolo & Farnsel, 2023). In this instance, the relationship between CSR performance and tax aggressiveness is negative. Companies simultaneously increase their CSR performance and tax payments and are less likely to engage in tax aggressiveness (Davis *et al.*, 2016; Jemiolo & Farnsel, 2023).

Advocates for the inclusion of tax within CSR performance assert that tax payments yield wide-ranging benefits for the broader community, as exemplified by Avi-Yonah (2008). Their contention lies in the assertion that tax payments play a pivotal role in fostering societal well-being through the provision of crucial essentials like infrastructure, public health, and educational institutions. Therefore, the act of fulfilling tax obligations harmonises with the very essence of CSR performance (Christensen & Murphy, 2004; Lanis & Richardson, 2015). These proponents underscore that businesses are entrusted not merely with the economic responsibilities of profit generation but also carry legal, ethical, and philanthropic responsibilities, as elucidated by Carroll (1991, 2020). Hence, the CSR pyramid encompasses all CSR performance elements, including community, environmental, corporate governance, and tax payments (Laguir *et al.*, 2015; Refer to CSR Pyramid in Appendix 5 p. 253). In addition, the importance of tax, the ethical complexities surrounding it, and the recognition that both tax strategy and CSR performance serve as corporate strategies substantiate the inclusion of taxation within the considerations on CSR performance (Avi-Yonah, 2009; Bird & Davis-Nozemack, 2018; Christensen & Murphy, 2004; Fallan & Fallan, 2019; Lanis & Richardson, 2011, 2012). To further entrench tax as part of CSR performance, EC (2012) indicated that:

Public attention has also become increasingly focused on the social and ethical performance of enterprises, including on issues such as the level of taxes they pay,

[and] ... Aggressive tax avoidance can be considered contrary to the principles of corporate social responsibility. (p.10)

If the perspective asserting the integration of tax into CSR performance is upheld, it logically follows that socially responsible companies should meet their equitable tax responsibilities. This commitment to tax payment effectively validates a company's claim to upholding social responsibility, as it involves channelling a portion of the company's profits toward the betterment of the broader society (Sikka, 2010). In this context, actively pursuing aggressive tax strategies becomes incongruous with assertions of conducting business in a socially responsible manner (Dowling, 2014; Lanis & Richardson, 2015; Sikka, 2010). Furthermore, a pivotal facet of a company's CSR performance obligation lies in dutifully and lawfully fulfilling its tax obligations in any jurisdiction where it operates (Christensen & Murphy, 2004).

2.5.2 Tax and CSR Performance as Substitute

When corporate tax payment is considered one of the costs incurred in a business transaction, it becomes unsurprising for companies to aim for minimal payments in order to obtain a higher profit. Aligned with this perspective, Friedman (2007, p.178) argues that the one and only social responsibility of business is to use resources effectively and engage in activities which maximise profit. This standpoint predominantly perceives CSR performance as instruments for enhancing profit maximisation and places importance on their responsibility to shareholders and owners (Fallan & Fallan, 2019). Within this framework, taxes are seen as expenses that diminish companies' divisible profit to their shareholders and consequently impact investment decisions (Fama & Jensen, 1983; Ding *et al.*, 2022). Participation in CSR performance also involves expenses that affect the company's profits. The decrease in profit can indeed influence strategic investments. These investments, when managed effectively,

have the potential to significantly contribute to economic development, job creation, technological advancement, and the overall well-being of communities. In this context, a positive relationship between CSR performance and tax aggressiveness emerges. This is because high levels of tax payments may constrain a company's ability to invest in innovation, impede job growth, and hinder overall economic development. Aligned with this perspective, some researchers posit that paying lower taxes can lead to greater social benefits. They argue that for-profit firms excel in resource allocation compared to government bodies (McGee, 2010; Porter & Kramer, 2006). From this viewpoint, managers of socially responsible firms may not perceive corporate tax payments as the most effective way to fulfil their social responsibility goals. Consequently, taxation can be considered a potential substitute for efforts on CSR performance (Davis *et al.*, 2016; Jemiolo & Farnsel, 2023).

In a substitute relationship, companies actively participate in CSR performance while concurrently adopting tax aggressiveness, as they do not view tax payment as an integral aspect of social responsibility (Davis *et al.*, 2016). Instead, they hold the belief that utilising the tax savings for business operations, such as employing more workers, acquiring new assets to replace outdated ones, or expanding their business operations, can bring about societal benefits. In this way, they perceive this allocation of resources as a form of social responsibility.

While companies possess the right to minimise their tax liability within the bounds of legal regulations, the conception and deployment of aggressive tax strategies solely aimed at reducing tax payments stand contrary to the principles of ethical business conduct (Avi-Yonah, 2008; EC, 2012). By engaging in such tax aggressiveness, companies unjustly capitalise on the privileges of corporate citizenship, effectively offloading the resultant costs onto

others (Amidu *et al.*, 2016). Importantly, resorting to artificial tax strategies to artificially reduce tax liabilities is deemed not only unethical and socially irresponsible but also can be considered illegal depending on the aggressiveness (Avi-Yonah, 2008; Jones *et al.*, 2017; Lanis & Richardson, 2012).

2.5.3 Prior Research on CSR Performance and Tax Aggressiveness

Voluminous tax and CSR performance studies have emerged in the accounting literature in the past two decades. They have individually examined the correlations between either corporate tax or CSR performance and various financial and non-financial aspects, including financial performance (Kumar *et al.*, 2016; Pelozo, 2009; Porter & Kramer, 2002), earnings management (Kim *et al.*, 2012, 2014), cost of equity (El Ghoul *et al.*, 2011; Wahab & Holland, 2012), corporate governance (Bear *et al.*, 2010; Chan *et al.*, 2014; Haniffa & Cooke, 2005), directors' liability analyst forecasts (Dhaliwal *et al.*, 2012), innovation (Kansal & Joshi, 2014), staff/CEO turnover (Adams & Zutshi, 2004), and investor confidence, firm reputation, and goodwill (Kansal & Joshi, 2014).

Research on the relationship between CSR performance and tax aggressiveness has surfaced recently (Col & Patel, 2019; Davis *et al.*, 2016; Hoi *et al.*, 2013; Lanis & Richardson, 2011, 2012, 2013, 2015; Preuss, 2010). The earlier studies in this field can be classified into three themes based on their sample: individual home countries, CSR performance and tax aggressiveness in a tax haven¹⁰ (offshore), and cross-country settings; thus, the discussion below follows this classification. In general, the empirical studies have produced mixed results; some studies show a positive relationship between CSR performance and tax, while

¹⁰ OECD (1998, p.3) uses 4 key factors to identify a territory as tax haven: 1. no or only nominal tax; 2. lack of effective exchange; 3. lack of transparency; and 4. no substantial corporate activities required.

others show a negative relationship or no relationship (Col & Patel, 2019; Hoi *et al.*, 2013; Lanis & Richardson, 2011; Mohanadas *et al.*, 2020; Rakia *et al.*, 2023).

2.5.3.1 Tax Aggressiveness and CSR Performance as Substitutes (Positive Relationship)

The literature on CSR performance and tax aggressiveness has included studies in both developed countries such as Australia, Canada, France, and the US (e.g., Abid & Dammak, 2022; Davis *et al.*, 2016; Landry *et al.*, 2013; Lanis & Richardson, 2013; Watson, 2015), and emerging economies, like Egypt (Abdelfattah & Aboud, 2020; Khan *et al.*, 2022), China (Lin *et al.*, 2017; Xu *et al.*, 2022), and Indonesia (Pratiwi & Siregar, 2019). Using US companies from 2006 to 2011, Davis *et al.* (2016) find that some socially responsible companies are more tax aggressive than their counterparts. This behaviour stems from the perspective of managers or shareholders within these socially responsible companies who do not perceive tax payments as an integral aspect of CSR performance. Instead, they regard tax payments as a substitute for engaging in traditional CSR performance. Reducing tax payments can result in higher profits and empower companies to enhance social welfare through investments, innovation, job creation, and overall economic development. Ultimately, these endeavours contribute to societal well-being.

Watson (2015) finds a positive relationship between CSR performance and tax aggressiveness in US firms with low current or future earnings performance, but this effect is diminished when current or future earnings performance is high. The results indicate that profitable companies are likely to demonstrate good corporate citizenship through a commitment to compliance with a view to appeasing their shareholders. Overall, the results indicate that the positive relationship between CSR performance and tax aggressiveness can be heightened due to scarce resources.

Landry *et al.* (2013) find that family-owned companies are less tax aggressive than non-family-owned companies, indicating that companies can be socially responsible yet indulge in tax aggressiveness, but the extent of aggressiveness is moderated by family ownership. The risk of indulging in tax aggressiveness, such as tarnishing the family name or reputation of family-owned companies, can outweigh the tax savings (Landry *et al.*, 2013). Lin *et al.* (2017) reveal that institutional attributes affect the CSR performance-tax aggressiveness relationship when using a Chinese sample. Specifically, firms claiming to be socially responsible actually avoid taxes in regions with lower institutional quality, whereas CSR performance in other regions is more aligned with the social responsibility aspect of tax compliance.

Preuss (2010) and Col and Patel (2019) find that companies' CSR performance ratings increase significantly after the opening up of offshore affiliates in tax havens. It presents a paradox where companies operating in tax havens assert their commitment to social responsibility while neglecting their economic contribution to society (Lee, 2020; Preuss, 2010, 2012). This paradox is further amplified as these companies actively reduce their tax liabilities through unethical and illicit aggressive tax strategies (Avi-Yonah, 2008; Lanis & Richardson, 2012; Col & Patel, 2019). Hence, companies operating in tax haven jurisdictions use CSR performance as insurance-like protection to protect their companies from the scrutiny of society (Godfrey *et al.*, 2009) to minimise reputational harm, to divert public focus (Minor & Morgan, 2011) as well as a hedge against the negative consequences from their aggressive tax activities.

Fourati *et al.* (2019) conducted their study across 15 countries in the European Union and find that socially responsible companies are more likely to engage in tax aggressiveness

than others. In a similar vein, Zeng's (2019) study covers sampled companies across 35 countries examining whether a country's legal and institutional environment affects the relationship between companies' CSR performance and tax aggressiveness. They show that CSR performance is positively related to tax aggressiveness. This observation suggests that CSR performance and the level of governance in a country may act as substitutes for influencing companies' tax behaviour. Pratiwi and Siregar's (2019) study, using *BTaxDiff* as a proxy for tax aggressiveness, reveals that companies in Indonesia that are active in CSR performance also indulge in tax aggressiveness.

To sum up, previous research provides evidence that when CSR performance is utilised to influence and persuade stakeholders of corporate commitment to societal expectations, it can also serve as a tax substitution. This perspective is supported by various studies (e.g., Abdelfattah & Aboud, 2020; Ashforth & Gibbs, 1990; Col & Patel, 2019; Landry *et al.*, 2013; Lanis & Richardson, 2013; Lin *et al.*, 2017; Neu *et al.*, 1998; Pratiwi & Siregar, 2019; Preuss, 2010), indicating that some companies view them as a diversion from their commitment to social welfare activities. When companies experience low current or expected future earnings, their focus tends to shift more towards shareholders and less towards stakeholders, as the lack of resources makes companies less inclined to commit to their obligations on CSR performance (Watson, 2015). These findings are consistent with the EC's (2012) perspective, highlighting the incongruity between tax aggressiveness and CSR performance, thereby deeming companies adopting such practices socially irresponsible (Avi-Yonah, 2008; Hoi *et al.*, 2013). Table 2.1 summarises the results of the main studies with positive results.

Table 2-1

Results of main studies with a positive relationship

Author(s)	Research sample and period	Proxies for tax aggressiveness	CSR Data	CSR Indicators	Findings	Theories
Abdelfattah and Aboud (2020)	Egyptian companies. 735 firm-years Year 2007-2016	GAAP ETR	Egyptian Stock Exchange and credit rating agency.	Total CSR	Significant positive	Risk management
Abid and Dammak (2021)	520 French companies. Year 2005-2016	Cash ETR Current ETR BTD Residual BTD	ASSET4	Total CSR	Significant positive	Risk management
Col and Patel (2019)	341 US companies. 3897 firm-years 1995-2012	Tax havens	KLD ratings	Total CSR Diversity Environment Human rights	Significant positive Significant positive Significant positive Significant positive	Risk management
Davis <i>et al.</i> (2016)	US companies. 5588 firm-years Year 2002-2011	Five years cash ETR	MSCI ESG	Total CSR Community	Significant positive Significant positive	CSR as a substitute for tax.
Fallan and Fallan (2019)	Norway companies. 111 firm-years	One-year cash ETR Three years cash ETR	Self-collected	Environment	Significant positive	Legitimacy /reputational

Year 2009-2012

Fourati <i>et al.</i> (2019)	614 companies. 15 EU countries 8956 firm-years Year 2002-2015	ETR BTD	ASSET4	Total CSR Economic Environmental Social	Significant positive Significant positive Significant positive Significant positive	
Khan <i>et al.</i> (2022)	91 Nigerian companies. 121 Pakistani companies Year 2011-2020	ETR	Self-collected	Total CSR Total CSR	Nigerian companies Significant positive Pakistani companies Non-significant	Risk management
Landry <i>et al.</i> (2013) (Mixed result)	Canadian companies. 1287 firm-years Year 2004-2008	ETR	Canadian Social Investment Database	Total CSR – High CSR score Total CSR score - Low CSR score Total CSR	Significant positive Significant positive Family firms- Significant negative	Social economic wealth
Lanis and Richardson (2013)	40 Australian companies. Year 2001-2006	Matched sample	KLD	Total CSR	Significant positive	Legitimacy
Liu and Lee (2019) (Mixed result)	Chinese companies. Non-state-owned enterprises. State-owned	Residual book-tax difference.	CSR Rating Agency RKS for Chinese companies	Total CSR	Non-state-owned enterprise. Significant positive State-owned	Ethical perspective.

	1315 firm-years Year 2010-2014			Total CSR	Significant negative	
				Total CSR	Full samples	
					Non-significant	
Pratiwi and Siregar (2019)	Indonesian companies. 851 firm-years Year 2014-2016	BTD	Self-collected	Total CSR	Significant negative	Ethical theory
Preuss (2010)	Tax haven companies. 26 Bermuda/Cayman companies. USA 20 companies Year 2008	Check code of conduct	Qualitative	CSR	Companies claim to be socially responsible but are based in tax havens	Legitimacy theory
Watson (2015)	US companies. 7297 firm-years. 2001-2011	Cash ETR	KLD database	Total CSR	Significant positive	Slack resource theory.
Xu <i>et al.</i> (2019)	Chinese companies. 2488 firm-years Year 2010–2017	ETR Difference between statutory tax rate and ETR	WinGo Textual Analytical	Total CSR	Significant positive	Legitimacy gap.

Yoon <i>et al.</i> (2021)	Korean companies	BTD	Korean Institute of Corporate Governance and Sustainability (KCGS)		Korean Financial Market	Corporate culture theory
(Mixed results)				Total CSR	Significant negative	
				Environmental	Significant negative	
	Korean Financial Market			Social	Significant negative	
	172 firm-years - chaebols			Governance	Significant positive	
					Chaebols companies.	
	5196 firm-years-non-chaebols affiliates			Total CSR	Non-significant	
				Environmental	Non-significant	
	5612 firm-years			Social	Significant negative	
	Year 2011-2017			Governance	Non-significant	
					Non-chaebols companies	
				Total CSR	Non-significant	
				Environmental	Non-significant	
				Social	Significant negative	
				Governance	Significant positive	
Zeng (2019)	35 countries	ETR - STR	DataStream	Total CSR	Significant positive	
	9945 firm-years	BTD				
	Year 2011-2015	Residual BTD				

2.5.3.2 Tax Aggressiveness as Part of CSR Performance (Negative Relationship)

When tax responsibility is considered a component of CSR performance, prior studies consistently identify a negative relationship between them (e.g., Hoi *et al.*, 2013; Lanis & Richardson, 2012, 2015; Liu & Lee, 2019; Zeng, 2016). This implies that CSR performance-oriented companies are less likely to engage in tax aggressiveness. In such instances, these companies view tax payments as complementing CSR performance (Davis *et al.*, 2016). As Carroll (1979) emphasised, CSR performance-oriented companies should pay their fair share of taxes to the government and are less likely to be involved in tax aggressiveness (Carroll, 1979, 2020). Lanis and Richardson's (2012) study on publicly listed companies in Australia reports a robust negative relationship between CSR performance and tax aggressiveness. Hoi *et al.* (2013) differentiate their study by examining the relationship between tax aggressiveness and socially irresponsible companies using US companies. Their results show that socially irresponsible companies are likely to engage in tax aggressiveness. They attribute their results to CSR performance strategies being ingrained as part of corporate culture that influences companies' stance on tax aggressiveness as espoused by corporate culture theory. Similarly, Zeng (2016) reveals that companies actively participating in CSR performance are less likely to engage in tax aggressiveness based on a sample of Canadian companies. Zeng attributes the finding to the importance Canadian companies place on their corporate reputation, a factor that can ultimately increase companies' market value. Jarboui *et al.* (2020) also find that companies in the UK that participate actively in CSR performance are less likely to indulge in tax aggressive strategies.

Jones *et al.* (2017) report a negative relationship between CSR performance and tax aggressiveness when analysing an international sample of over 30 countries; however, the

results are more significant in the Asian subsample. The researchers further note that their results vary across different proxies of tax aggressiveness and the countries included in their analysis. Compared to other measures, the negative relationship is more pronounced when employing a cash-effective tax rate (cash *ETR*).

In another study conducted by Lopez-Gonzalez *et al.* (2019) on a sample of companies from America, Europe, the Middle East, Africa, and Asia, their findings align with those of Lanis and Richardson (2012), indicating that socially responsible companies are less likely to engage in tax aggressiveness. The researchers attribute these results to companies prioritising the maintenance and protection of their reputation and image. Lopez-Gonzales *et al.* (2019) provide additional evidence by highlighting that family ownership magnifies the negative relationship between CSR performance and tax aggressiveness. This occurs because family-owned companies place more emphasis on their reputation and image. They recognise that the benefits derived from engaging in CSR performance outweigh the potential tax savings from tax aggressiveness, considering factors like reputation loss and scrutiny by tax regulators (Lopez-Gonzales *et al.*, 2019).

In their examination of MNCs with subsidiaries in India, Muller and Kolk (2015) present evidence indicating that these subsidiaries pay higher taxes than local Indian companies. In addition, MNC subsidiaries recognised for their CSR performance exhibit higher tax payments compared to those less active in CSR performance. They attribute their findings to the prominent status of MNCs, which draws increased attention from stakeholders. In an effort to evade scrutiny, MNCs incorporate CSR performance into the operations of their local subsidiaries, even in jurisdictions with low CSR performance awareness, especially if they view tax as integral to their CSR performance strategies. Liu and Lee (2019) find that in China, the

introduction of CSR performance regulations only improves the tax stance of state-owned enterprises. State-owned enterprises become less likely to indulge in tax aggressiveness as they participate more in CSR performance and issue more disclosures on their CSR performance. Using GAAP ETR, Santoso *et al.* (2021) find that socially responsible companies in the Philippines are less likely to yield to strategies of tax aggressiveness. These companies consider corporate tax payments a part of CSR performance.

In summary, the above studies show a negative relationship between CSR performance and tax aggressiveness (e.g., Hoi *et al.*, 2013; Lanis & Richardson, 2012, 2015; Liu & Lee, 2019; Muller & Kolk, 2015; Zeng, 2016) as companies view tax payments as part of their CSR performance. In this sense, when companies participate actively in CSR performance, they consider their tax strategy stance, confirming that CSR performance is a core activity companies use to support their position on tax matters (Lanis & Richardson, 2012; Muller & Kolk, 2015). Table 2.2 summarises the results of the main studies with negative results.

Table 2-2

Results of main studies with a negative relationship

Author(s)	Research sample period	Proxies for tax aggressiveness	CSR Data	CSR indicators/Moderator	Findings	Theories
Hoi <i>et al.</i> (2013)	2620 US companies (irresponsible CSR performance) 11006 firm-years. Year 2003-2009	Discretionary book-tax differences Permanent book-tax differences Shelter prediction score Cash ETR	KLD. Negative CSR	Total CSR	Significant negative	Corporate culture
Jarboui <i>et al.</i> (2020)	300 UK companies 3900 firm years Year 2005-2017	ETR	ASSET4	Total CSR Gender diversity	Significant negative Magnify negative	Stakeholder
Jones <i>et al.</i> (2017)	30 countries 1428 CSR rated firms	ETR Cash ETR Long-run cash ETR	EIRIS	Total CSR Asian and Oceania North America, European and UK	Significant negative (limited evidence) Significant negative Non-significant	Corporate culture
Laguir <i>et al.</i> (2015)	24 French companies. 83 firm-years. Year 2003-2011	ETR Cash ETR	Vigeo ratings	Governance Environmental Economic Social	Non-significant Non-significant Significant positive Significant negative	Agency CSR

Lanis and Richardson (2012)	408 Australian companies. Year 2008-2009	GAAP ETR Cash ETR	Self-construct	Total CSR Social	Significant negative Significant negative	Corporate culture
Lanis and Richardson (2015)	US companies 434 firm-years Year 2003-2009	Tax dispute	KLD	Total CSR Community Governance Diversity Employee relation Environment Human rights Product category	Significant negative Significant negative Non-significant Significant negative Non-significant Non-significant Significant negative Significant negative	Corporate culture
Lanis and Richardson (2018)	697 US companies. 5007 firm-years. Year 2003-2009	Tax shelter BTD Cash ETR	KLD	Total CSR Outside director	Significant negative Magnify negative	Risk management
Lin <i>et al.</i> (2017)	China companies 1438-firm-years Year 2008-2012	3-year gap ETR - statutory rate	RKS	Total CSR with lower institutional quality Total CSR with	Significant positive Significant negative	

				higher institutional quality		
Lopez-Gonzales <i>et al.</i> (2019)	International samples 6442 firm-years Year 2006-2014	ETR CETR	EIRIS	Total CSR Family firms	Significant negative Significant positive	Socioemotional wealth
Muller and Kolk (2015)	82 companies in India 154 firm-years Year 2000-2001	ETR	Dow Jones	Total CSR	Significant negative	
Ortas and Gallego-Alvarez (2020)	30 countries 2696 firm-years. Year 2002-2014	Current ETR Cash ETR Difference between national statutory ETR and a company's ETR.	ASSET4	Environmental Social Governance	Significant negative Significant negative Significant negative	Agency
Santoso <i>et al.</i> (2021)	Companies in Philippine Year 2014-2019	ETR	Self-collected	Total CSR Economic Environmental Social	Significant negative Significant negative Significant negative Significant negative	Legitimacy

9. Zeng	53 Canadian companies from TSX 60 firms	Five-year cash ETR	CSR score – 2010 CSR Ranking Corporate Knight Research Group.	Total CSR score	Negative relationship between CSR and TAG.	Corporate culture theory
	Year 2005–2009	Annual cash ETR				

2.5.4 Dimensions of CSR Performance and Tax Aggressiveness

Recently, there have been suggestions that studies should focus on individual dimensions of CSR performance (e.g., environmental, social, and governance), as each dimension might have a different influence on corporate tax planning strategies (Hoi *et al.*, 2013; Laguir *et al.*, 2015; Lanis & Richardson, 2015, 2018; Ortas & Gallego-Alvarez, 2020; Yoon *et al.*, 2021). In their study on French firms, Laguir *et al.* (2015) discover that CSR performance involving social dimensions such as human resources, community projects, and employee workplace rights are less tax aggressive than business-related CSR performance. The findings present a contrast to the research by Davis *et al.* (2016) but align with the perspectives of Lanis and Richardson (2012, 2015). According to Lanis and Richardson, companies exercise increased caution when CSR performance encompasses a community dimension and refrain them from participating in tax aggressiveness. This is consistent with the view that companies recognise the importance of contributing to the community by fulfilling their tax obligations to the government, ultimately enhancing social welfare.

In a cross-country setting, Ortas and Gallego-Alvarez (2020) examine the individual dimension of CSR performance using data from 30 countries. Their study reveals that companies demonstrating accountability across all three dimensions of environmental, social, and governance issues are notably less inclined to adopt a tax aggressive strategy. They attribute their results to corporate commitment to their workforce, customers, and community, as well as environmental care and good governance practices in countries with a robust cultural emphasis. Yoon *et al.*'s (2021) study on Korean firms find that companies with high CSR performance combined scores and individual dimensions of CSR performance in environmental and social are less likely to engage in tax aggressiveness. However, the positive

relationship between the governance dimension of CSR performance and tax aggressiveness contradicts the result of Ortas and Gallego-Alvarez (2020). Yoon *et al.* (2021) conclude that an ineffective governance structure in controlling managerial opportunistic behaviour may incentivise managers to pursue tax aggressiveness to enhance company market value and increase profitability for the managers' financial gains.

2.5.5 Effect of Mandatory CSR Performance on Tax Aggressiveness

More recently, a number of studies have examined the relationship between CSR performance and tax incentives following the issuance of guidelines by regulators that companies must fulfil their social responsibilities (Ding *et al.*, 2022; Fallan & Fallan, 2019; Jiang *et al.*, 2022; Raithatha & Shaw, 2022). Using Norway data, Fallan and Fallan (2019) examine the impact of voluntary and mandatory environmental disclosure on tax aggressiveness. They find that companies with high compliance with compulsory environmental performance disclosure are the least likely to engage in tax aggressiveness. However, companies that issue the most comprehensive voluntary environmental performance disclosure are likely to participate in tax aggressiveness. Tax aggressive companies issue disclosures on CSR performance to divert the attention of stakeholders from their tax stance. Companies voluntarily issue more disclosures on CSR performance to legitimatise the tax aggressiveness practice, and the disclosures do not act as an accountability mechanism (Fallan & Fallan, 2019). Dowling (2014) accentuates the importance of understanding the strategic considerations and trade-offs that companies take into account when determining their tax stance. This includes stick-to-the-rule or opportunistic strategies that dominate their decision-making.

Ding *et al.* (2022) find that companies in China are less tax aggressive after mandating firms to disclose tax-related data to stakeholders. They cite political and social pressures on firms, increased corporate transparency, and stricter supervision by regulators as reasons for companies to be less tax aggressive. Contrarily, Jiang *et al.* (2022) find that companies in China are more likely to engage in tax aggressiveness after implementing mandatory disclosures on CSR performance. The difference can be attributed to the period of studies. Jiang *et al.*'s (2022) study spanned from 2006 to 2011, encompassing three years before and after the mandatory disclosure requirement. The study by Ding *et al.* (2022) covered a longer period, from 2002 to 2017. This extended timeframe following the obligatory disclosure in 2008 affords companies a window to enhance both their CSR performance and tax practices.

Both Fallan and Fallan's (2019) and Raithatha and Shaw's (2022) studies provide support for Ding *et al.*'s (2022) findings that companies which comply with mandatory regulations on CSR performance are less tax aggressive. They find obligatory CSR performance make companies more visible to regulators and the wider society, leading to enhanced tax compliance.

The revelation from the studies mentioned above regarding how regulatory measures and enforcement exert distinct influences on companies' tax strategies compared to voluntary approaches should provide governmental leaders and regulators with insights into the influence of their regulations in fulfilling the government's intention to safeguard their tax revenue effectively.

The review of previous studies on the relationship between CSR performance and tax aggressiveness, along with investigations into the individual dimensions of CSR performance and the impact of moderating agents, has yielded mixed results. The diversity in findings from

earlier research and the potential influence of moderating variables suggest that examining the relationship in a distinct institutional context, such as Malaysia, could yield different outcomes, thereby contributing to the literature on CSR performance and tax aggressiveness in developing countries. The following section delves into prior studies conducted in Malaysia.

2.6 Tax Aggressiveness and CSR Performance in Malaysia

2.6.1 Prior Study on Tax Aggressiveness in Malaysia

Prior studies on tax aggressiveness examine the influence of political connections (Tee *et al.*, 2022; Wahab *et al.*, 2017), foreign investors (Salihu *et al.*, 2015), board gender diversity (Rakia *et al.*, 2023), corporate governance (Wahab *et al.*, 2017), companies' size (Mohamad *et al.*, 2016; Ngah *et al.*, 2021) and frequency of tax audits (Ngah *et al.*, 2021) on tax aggressiveness.

Wahab *et al.* (2017) find that Malaysian companies with strong political alliances are likely to engage in tax aggressiveness compared to those companies without political connections. Similar findings are reported by Adhikari *et al.* (2006). Tee *et al.* (2022) investigate various forms of political connections in Malaysian-listed companies with tax aggressiveness spanning from 2002 to 2018. The findings indicate that companies with more prolonged political connections and those categorised as GLCs are more likely to be involved in tax aggressiveness. In addition, this relationship is pronounced in companies with higher institutional and CEO shareholdings. These findings imply that political connections tend to foster tax aggressiveness, and strong political alliances can overshadow the benefits of corporate governance reform. This may be attributed to the alignment of policies between personal and public agendas, favouring politically connected companies through mechanisms such as tax-free bailouts and tax relief.

Salihu *et al.* (2015) use the top 100 companies listed in Bursa Malaysia from 2009 to 2011 to examine the impact of foreign investors on tax aggressiveness in Malaysia and the host country, respectively. They find that companies with higher foreign ownership have the propensity to engage in tax aggressiveness and the probability of MNCs engaging in tax aggressiveness in both the host and parent countries. Ariff and Hashim (2014) examine the role of governance in the relationship between tax avoidance and the firm value of Malaysian companies, which were identified as having strong governance from 2009 to 2011. The results reveal that tax aggressiveness is positively related to market value, and robust governance mechanism is positively associated with tax aggressiveness. They argue that the result is consistent with the traditional view on tax aggressiveness, which views tax aggressiveness as a value-enhancing activity by investors (Ariff & Hashim, 2014).

Salihu and Kawi (2021) examine the relationship between board attributes and tax aggressiveness of Malaysian listed companies over three years from 2009 to 2011. The results show that board meeting frequency and board size negatively affect tax aggressiveness. Board composition, financial literacy, and CEO duality do not impact a company's stance on taxation. Regarding the firm's characteristics, Salihu and Kawi (2021) find that only the company's size is positively related to tax aggressiveness, whereas profitability, leverage, and capital intensity do not impact tax aggressiveness. In addition, they find that the board's chairman plays a pivotal role in shaping the company's tax strategy. The involvement of directors in decision-making processes related to taxation is potentially influenced by the fact that the companies compensate these directors. Furthermore, since directors often serve on the boards of multiple companies, they may not give due consideration to tax matters.

Rakia *et al.* (2023) investigate the moderating effect of women directors on the relationship between CSR performance and tax aggressiveness of listed companies in Malaysia from 2010 to 2017. The findings show that companies with high CSR performance are less likely to engage in tax aggressiveness, and the negative relationship is more pronounced in companies with women directors. Women directors are perceived as more inclined towards ethical considerations, incorporating ethical values and considering the interests of all stakeholders in their decision-making processes (Jarboui *et al.*, 2020; Rakia *et al.*, 2023). In terms of small and medium companies, Mohamad *et al.* (2016) find that tax aggressiveness is more prevalent for small and medium companies located in suburban environments that do not have tax consultants to advise them on their tax strategies.

Ngah *et al.* (2021) find family-owned companies to be tax aggressive as the corporate governance mechanism is not robust. In addition, the analysis finds that large companies are more inclined to engage in tax aggressiveness as these companies have the influence and ability to manipulate their financial reports. Further, the study finds that the frequency of tax audits does not deter companies from engaging in tax aggressiveness. Hamzah *et al.* (2021) examine the impact of tax incentives on Malaysian companies' tax strategies over ten years. Their findings indicate that companies utilising tax incentives have a lower *ETR* and report a lower taxable income to the authorities. However, these companies report higher book income to other stakeholders for the same accounting period. The lower taxes paid by the companies reflect the generosity of the tax incentives under government fiscal policies. Further, the results indicate that companies are reporting lower taxable income due to tax exemptions, taxable income at a lower tax rate, or manipulating the loophole of the taxation

system (Hamzah *et al.*, 2021). The researchers' conclusion supports the choice of Malaysia as the setting for the thesis.

Furthermore, prior studies in Malaysia have explored how companies engage in tax aggressiveness. Tax audits carried out by IRBM, the Malaysian tax authority, showed that one of the conventional methods to reduce taxes is to shift income from a high-tax company to a low-tax company (Brohier, 2018; Lai *et al.*, 2013; Sulaiman *et al.*, 2019). Noor *et al.* (2010) find that various tax incentives provided by the Malaysian government encouraged companies in the industrial products, trading and services, consumer products, plantation, technology, and properties sectors to engage in aggressive tax strategies. Tax aggressiveness is also evident when companies legally claim allowable expenses, accelerated allowances, incentives, or reinvestment allowances provided for in the tax regulations (McGowan & Mahon, 2019; Noor *et al.*, 2010). Other methods include the excessive use of corporate debt to overclaim interest deductions, overuse of tax losses, sale and leaseback transactions, and overclaiming of lease rentals (IRBM, 2020; Lanis & Richardson, 2013).

2.6.2 Prior Research on CSR Performance in Malaysia

Prior research on CSR performance in Malaysia is divided into two themes: its determinants and consequences. CSR performance regulations have been recognised as a crucial factor influencing the quality of CSR performance. Zainal *et al.* (2013) and Haji (2013) both observe a substantial enhancement in both the extent and quality of disclosures on CSR performance following regulatory changes in the year 2007 (Refer Section 1.3.2). Bakar *et al.* (2019) report similar findings, highlighting that the introduction of SRG has led to improvements in the quality and extent of CSR performance. These findings imply that regulatory frameworks can

play a pivotal role in shaping and enhancing the CSR performance of listed companies as companies strive to avoid scrutiny from stakeholders such as regulators.

The disclosure of CSR performance is also influenced by various firm-level characteristics, such as size, profitability, institutional ownership, and corporate governance practices. Jamil *et al.* (2021), Sadou *et al.* (2017) and Said *et al.* (2009) concur that company size is positively related to the extent and quality of disclosures on CSR performance. Large companies are visible and thus under strict public scrutiny. Studies by Jamil *et al.* (2021) and Yusoff *et al.* (2015) show that profitability improves the quality and extent of disclosures on CSR performance as profitable companies give back to the community by investing in new assets to reduce environmental harm. Saleh *et al.* (2010b) find a significant positive relationship between institutional ownership and the extent of CSR performance.

Ho and Taylor (2013) find that implementing the Malaysia Code of Corporate Governance (MCCG) improves governance strength, resulting in detailed and more comprehensive disclosures on CSR performance. A similar finding is reported by Jamil *et al.* (2021). These studies suggest that the presence of directors with sustainability expertise and sustainability training further enhances the quality of disclosures on CSR performance. In addition, Haji (2013) finds that board size exhibits a significant relationship only with the extent of disclosures on CSR performance, and this finding is consistent with Yusoff *et al.* (2015), Aliani *et al.* (2018) and Sadou *et al.* (2017). Large boards have directors with different expertise to satisfy the stakeholders' information requirements (Janggu *et al.*, 2014) and are more effective in communicating and coordinating decision-making through an effective management system (Said *et al.*, 2009; Yusoff *et al.*, 2015).

Further, Mohammad *et al.* (2023) and Bakar *et al.* (2019) find that having women directors can significantly enhance the extent and quality of disclosures on CSR performances. Although the presence of independent directors on boards has been identified as a factor that improves the quality of disclosures on CSR performance in prior literature, this correlation has not been observed in Malaysian CSR performance studies (e.g., Ahmad *et al.*, 2017; Haji, 2013; Jamil *et al.*, 2021; Sadou *et al.*, 2017; Yusoff *et al.*, 2015). Ahmad *et al.* (2017) surmise that the ability of independent directors to improve disclosures on CSR performance is limited to specific industries, and they argue that the issue lies in the structure of the Malaysian board system, which operates under a one-tier system. In such a system, both management and monitoring functions are assigned to the directors of the board, who share similar responsibilities, thus causing independent directors the likelihood of not being able to carry out their supervisory functions properly. Moreover, independent directors have limited information on companies' affairs in order to give much input on companies' CSR performance. Regarding the content disclosed, Kweh *et al.* (2017) find that the disclosures on CSR performance focus on governance, followed by social and environmental information, in GLCs from 2006 to 2012.

As for the consequences of CSR performance, most Malaysian studies report the economic impacts of CSR performance. Kweh *et al.* (2017) find that CSR performance-related disclosure negatively affects business performance and displays no significant positive effect on companies' performance at the initial stage. Samuel *et al.* (2022) provide evidence that the moderating effect of disclosures and awards received on its CSR performance and practices lowers the company's cost of debt of Malaysian listed companies. The results indicate that engaging in CSR performance and receiving awards can bolster a company's

reputation, aiding in effective marketing strategies and facilitating better negotiation of favourable credit terms.

Subramaniam *et al.* (2016) find that higher levels of CSR performance correspond to increased share liquidity. Their results also show that insider block holding improves trading friction and reduces liquidity; however, non-governmental institutional block holdings enhance the liquidity of shares traded in Bursa Malaysia. The authors conclude that government institutional ownership and disclosures on CSR performance are substitute governance mechanisms that affect liquidity, and this substitution effect is due to government-owned companies legitimising CSR performance.

Using data from Malaysian listed firms between 2009 to 2013, Yusoff and Adamu (2016) find a significant positive relationship between the four dimensions of CSR performance (i.e., environmental, community place, workplace, and marketplace) and financial performance. In a similar vein, Razali *et al.* (2018) examine the association between CSR performance and firm performance of Malaysian listed companies from 2014 to 2016 and find that CSR performance has a significant positive relation with return on assets and return on equity but no relationship with market value. Companies involved in and investing in CSR performance garner stakeholder support, enabling companies to attract increased investments, thereby enhancing their overall financial performance. These results support stakeholder theory, which stresses the importance of meeting the needs of all stakeholders. CSR performance play a crucial role in enhancing financial performance by fostering trust and understanding among stakeholders. Stakeholders tend to favour companies that prioritise their welfare, leading to positive outcomes for the company's financial performance.

Saleh *et al.* (2010b) find that CSR performance is positively related to company investor ownership. However, the dimension of community and environment is negatively associated with investor ownership. One plausible reason is that both these dimensions involve much investment, which impacts companies' cashflows. This shows that some institutional investors emphasise maximising shareholder wealth and neglect the long-term benefit of CSR performance (Saleh *et al.*, 2010a).

The examination of prior research enables the thesis to assess key variables for studying the connection between CSR performance and tax aggressiveness. Variables such as board diversity, regulating frameworks enhancing CSR performance, board size, government ownership, and foreign ownership are considered potential control variables and moderators to understand their influence on the relationship between CSR performance and tax aggressiveness.

2.6.3 Prior Research on CSR Performance and Tax Aggressiveness in Malaysia

Research examining the connection between CSR performance and tax aggressiveness within the Malaysian context is understudied. The first study by Hamid *et al.* (2017) investigated whether different dimensions of CSR performance, namely, environmental, social, and governance, significantly impact tax aggressiveness, measured by *ETR* and cash flow *ETR*, in 2014 with a sample of 147 companies. Their findings indicate a non-significant relationship between dimensions of CSR performance and tax aggressiveness when employing *ETR* as a proxy for tax aggressiveness, but a significant negative relationship between the governance dimension of CSR performance and tax aggressiveness is found when cash flow *ETR* is used to measure tax aggressiveness. Both social and environmental dimensions of CSR performance show a non-significant relationship with tax aggressiveness. The negative relationship

between governance dimensions of CSR performance and tax aggressiveness suggests that a robust governance mechanism positively influences Malaysian companies' stance on tax aggressiveness. As noted by Hamid *et al.* (2017) and Lanis and Richardson (2012), companies that have integrated strong and effective governance mechanisms into their organisational structure are less likely to engage in tax aggressiveness.

Hamid *et al.* (2018) examine the relationship between the individual dimensions of CSR performance and tax aggressiveness proxied by *ETR* using data from 34 companies listed in the ESG Index in 2015. The constituents of the ESG Index, known as the F4GBM Index, demonstrate strong CSR performance (Refer to Chapter 4 Section 4.7 for the explanation of SRG and F4GBM, Section 6.4). The results show an insignificant relationship between social and governance dimensions of CSR performance and tax aggressiveness. However, the environmental dimension of CSR performance has a significant positive relationship with tax aggressiveness. The researchers attribute the results to the Malaysian government's provision of tax incentives for environmental performance. Companies can reduce their tax liabilities by engaging in more environmental programs to benefit from tax incentives such as tax exemptions or income tax allowances. In addition to enjoying the benefits from tax savings, companies reap the benefits from their CSR performance, which enhances their reputation and image in the eyes of their stakeholders, thus improving their financial performance (Hamid *et al.*, 2018).

Mohanadas *et al.* (2020) examine the relationship between CSR performance and tax aggressiveness of companies in Malaysia from 2010 to 2012 and the effect of CSR performance themes, namely, community, marketplace, workplace, and environment, on tax aggressiveness. The study uses *ETR* as a proxy for tax aggressiveness and measures CSR

performance using a specially developed CSR performance score index based on information from annual reports. Their results reveal that no significant relationship is found between CSR performance and tax aggressiveness, and the same results apply to both the marketplace and environmental dimensions. However, they did find a negative relationship between community-related CSR performance and tax aggressiveness, corroborating the conclusions drawn by Laguir *et al.* (2015) and Lanis and Richardson (2012, 2015). This contradicts Hamid *et al.* (2018) on the social dimension, where an insignificant relationship is found. The negative relationship signifies the company's dedication to supporting communities and society through engagement in social services, coupled with a commitment to paying appropriate taxes. By actively participating in social services and fulfilling their tax responsibilities, companies demonstrate their role as socially responsible corporate citizens, thereby bolstering their reputation and fostering a strong rapport with their community. In contrast, the authors report a significant positive relationship between the workplace dimension of CSR performance and tax aggressiveness. The results are likely due to companies acknowledging their workers' commitments and endeavouring to enhance benefits, incurring additional expenses that reduce shareholder wealth. Consequently, companies strategically align employee-related expenses with tax incentives to obtain tax savings.

Additionally, Mohanadas *et al.* (2020) find that highly leveraged and capital-intensive companies are prone to engage in tax aggressiveness due to the deductibility of interest expenses and capital allowance. Further, the authors find that profitable companies are more inclined to indulge in tax aggressiveness as they incur a more significant tax burden. Wahab *et al.* (2022) analyse the relationship between CSR performance decoupling and tax

aggressiveness measured by *ETR*. Tashman *et al.* (2019), as cited in Wahab *et al.* (2022), define CSR decoupling as a mismatch between actual CSR performance and CSR performance reporting or “the excess of CSR reporting above CSR performance” (p.368), implying that a higher CSR performance decoupling score indicates a greater difference between CSR performance reporting and actual performance. Sample companies were chosen from fully rated companies in CSRHub¹¹ from 2009 to 2019, consisting of 52 companies. Besides overall CSR performance decoupling, the CSR performance dimensions included in this study are community CSR performance decoupling, employee CSR performance decoupling, and environmental CSR performance decoupling. The individual CSR performance is sourced from CSRHub, with researchers quantifying the score on a scale of 0 to 100 by averaging scores of the three individual CSR performance dimensions. The results suggest that CSR performance decoupling, employee decoupling, and environmental decoupling are negatively related to tax aggressiveness, respectively. The relationship between community decoupling and tax aggressiveness is insignificant, suggesting that community CSR performance is not associated with tax aggressiveness. Overall, the results imply that companies that issue more deceptive disclosures on CSR performance are less likely to engage in tax aggressiveness, as CSR performance and tax aggressiveness are unrelated. However, giving misleading disclosures on CSR performance while paying the correct amount of taxes suggests that CSR performance and tax aggressiveness are two separate business strategies (Landry *et al.*, 2013), contradicting the belief that CSR is an integral part of a company’s culture that impacts tax (Hoi *et al.*, 2013; Wahab *et al.*, 2022).

¹¹ CSRHub is among one of the top ten independent ESG providers. Its sustainability model focuses on regions in emerging markets. It provides information on the community, employees, environmental and governance.

Razali *et al.* (2022) examine the relationship between CSR performance and tax aggressiveness from 2014 to 2016 using both *ETR* and *BTaxDiff* as proxies for tax aggressiveness. When they use *ETR* as a proxy, the result shows a non-significant relationship between CSR performance and tax aggressiveness. Conversely, when they apply *BTaxDiff* as a proxy, the researchers find a positive relationship between CSR performance and tax aggressiveness, implying that companies in Malaysia do engage in tax aggressiveness. Razali *et al.* (2022) attribute the results to some of the policies implemented by the government. Some companies have abused government-provided tax incentives aimed at benefiting society, using CSR performance as a public relations strategy to improve their image and reputation, diverting attention from the negative implications of their tax aggressiveness.

Rakia *et al.* (2023) use *ETR* as a proxy for tax aggressiveness and develop their own CSR performance index based on earlier studies. They find a significant negative relationship between CSR performance and tax aggressiveness, and this negative effect is pronounced in companies with women on the board. The result affirms that socially responsible firms are less likely to indulge in tax aggressiveness (Lanis & Richardson, 2012; Ortas & Gallego-Alvarez, 2020) and supports the earlier study by Jarboui *et al.* (2020) that elucidates that the presence of women directors reduces the tendency to engage in tax aggressiveness in the British companies.

Ling and Wahab (2019) examine the moderating effect of CSR performance on the relationship between tax aggressiveness and equity value. The research implies that shareholders actively incorporate a company's CSR performance engagements as a crucial factor in their investment decisions. Consequently, a company's CSR performance serves as a vital indicator for stakeholders to assess and reflect upon the company's legitimacy status.

Moreover, companies engaging in tax aggressiveness leverage their robust CSR performance to offset the adverse effects of their tax aggressiveness (Ling & Wahab, 2019).

Tables 2-3 summarise Malaysia's main studies on CSR performance and tax aggressiveness.

Table 2-3*Results of main Malaysian studies on CSR performance and tax aggressiveness*

Author(s)	Research sample and period	Proxies for tax aggressiveness	CSR data	CSR indicators	Findings	Theories
Hamid <i>et al.</i> (2017)	147 companies in Bursa Malaysia Year 2014	ETR	Self-collected	Environmental Social Governance	Non-significant Non-significant Significant negative	
Hamid <i>et al.</i> (2018)	34 companies in Bursa Malaysia F4GBM Year 2015	ETR	Self-collected	Environmental Social Governance	Significant positive Non-significant Non-significant	
Ling and Wahab (2019)	373 companies in Bursa Malaysia Year 2008–2015	Permanent difference Temporary difference Statutory tax rates differences	Self-collected	CSR (moderating effect)	CSR positively moderate the negative effect of BTB components on equity value	Legitimacy
Mohanadas <i>et al.</i> (2020)	557 companies in Bursa Malaysia Year 2010-2012	ETR	Self-collected	CSR total score CSR community CSR workplace CSR environment	Non-significant Significant negative Significant positive Non-significant	Legitimacy

				CSR marketplace	Non-significant	
Rakia <i>et al.</i> (2023)	78 companies in Bursa Malaysia	ETR Difference between statutory tax rate and company reported tax rate	Self-collected	CSR performance	Significant negative	Stakeholder Resource dependency
	624 firm-years Year 2010-2017					
Razali <i>et al.</i> (2022)	557 companies in Bursa Malaysia	BTaxDiff ETR	Self-collected	CSR total score	BTD - Significant positive	Legitimacy
	Year 2014-2016				ETR – Non-significant	
Wahab <i>et al.</i> (2022)	52 companies listed in Bursa Malaysia	ETR	CSRHub	CSR decoupling total score	Significant negative	Neo Institutional
	572 firm-years		Self-collected	Community CSR decoupling	Non-significant	
	Year 2009-2019			Employee CSR decoupling	Significant negative	
				Environmental CSR decoupling	Significant negative	

Note: CSR Decoupling = CSR Reporting – CSR performance

2.7 Research Gap

Different opinions on how tax and CSR performance are viewed, along with the inconclusive findings of previous studies underscore the necessity for additional research on the association between CSR performance and tax aggressiveness (Davis *et al.*, 2016; Hoi *et al.*, 2013), especially considering the distinct characteristics of emerging economies in terms of country size, institutional development, and skill levels (Muller & Kolk, 2015; Pratiwi & Siregar, 2019; Santoso *et al.*, 2021). Moreover, even in emerging economies, countries have different economic circumstances and growth. In some countries, awareness of CSR performance is lower than in other countries, and in some countries, CSR performance is voluntary, while in different countries, CSR performance is mandatory. Some countries issued specific guidelines to help companies understand the importance of CSR performance in assisting the companies to grow and helping the country they are operating in to fund infrastructures and social welfare (Pratiwi & Siregar, 2019; Santoso *et al.*, 2021; Yoon *et al.*, 2021).

Indeed, given the growing concern about the importance of paying taxes in Malaysia, it is a promising candidate for further exploration on this topic. Previous studies conducted in Malaysia produced mixed results (Hamid *et al.*, 2017, 2018; Mohanadas *et al.*, 2020; Wahab *et al.*, 2022). As such, new research can help confirm or reassess these findings, providing a clearer picture of the relationship between CSR performance and tax aggressiveness in Malaysia's public listed companies.

Moreover, tax policies and CSR performance are not static; both evolve. New regulations, tax law changes, or expectations on CSR performance can alter the relationship between CSR performance and tax aggressiveness. Furthermore, what constitutes CSR

performance and how companies approach them can change over time. New studies can help to clarify these evolving definitions and practices, and a recent study can provide up-to-date insights reflective of the current context. As such, this study looks at the moderating effect of the SRG (regulatory) and the F4GBM (corporate reputation) on the relationship between CSR performance and tax aggressiveness of Malaysian public listed companies. No prior studies in Malaysia have used the SRG and F4GBM as a moderating effect in the relationship between CSR performance and tax aggressiveness of Malaysian public listed companies.

Before the issuance of SRG, there were no proper guidelines and regulations to help Malaysian listed companies in their CSR performance. Most prior studies in Malaysia were conducted before the issuance and enforcement of SRG. Hamid *et al.* (2018) and Mohanadas *et al.* (2020) reported that CSR performance was low as companies did not know what to do about CSR performance. This thesis examines the effect of having proper guidelines with regulatory checks and enforcement and having no guidelines and enforcement in the relationship between CSR performance and tax aggressiveness. The SRG 2015 and 2018 provide an exhaustive guide to companies on disclosing and embedding sustainability in their daily business operations. The guide also provides examples of how companies worldwide handle and disclose their sustainability issues. The implementation of the SRG introduces an intriguing inquiry: whether these extensive guidelines and their regulatory effect influence the link between CSR performance and tax aggressiveness in Malaysia's publicly listed companies. This constitutes one of the central research questions this thesis seeks to address, as it has yet to be tested in the Malaysian context. The findings provide some insight into the extent to which a formal and more comprehensive set of guidelines shape the disclosures on CSR performance and tax aggressiveness of companies in Malaysia.

Moreover, the F4GBM Index was introduced by Bursa Malaysia in 2014 to incentivise companies to operate sustainably and responsibly. Despite its establishment, there is a notable dearth of studies using companies from the F4GBM Index, which enhances companies' corporate reputation in investigating the relationship between CSR performance and tax aggressiveness. Hamid *et al.*'s (2018) one-year study is a notable exception. The researchers even propose that future research be conducted using data for an extended period to understand the real effect of the F4GBM Index (corporate reputation) on the relationship between CSR performance and tax aggressiveness. As such, this thesis seeks to determine the potential influence of the F4GBM Index, designated as socially responsible within the Malaysian context, on companies' tax strategies.

Some prior studies in Malaysia focus on one-year data only, for example, Hamid *et al.* (2017, 2018), and most studies use CSR performance data before the issuance of SRG. This study covers a 14 period from 2008 to 2021. In addition, most prior studies in Malaysia were conducted during the infancy stage of mandatory CSR performance. This study covers both the infancy and longer time frame of mandatory disclosures. Additionally, a longer time period allowed for a better evaluation of the evolvement of corporate tax aggressiveness over time (Mohanandas *et al.*, 2020; Hamid *et al.*, 2017,2018) and companies' stances on CSR performance and tax aggressiveness. The longer time period is supported by prior studies conducted in China by Ding *et al.* (2022) and Jiang *et al.* (2022), which produced mixed results. This is echoed by Mohanadas *et al.* (2020), who conclude that one of the limitations of their study is the possibility that their sampled companies have yet to grasp the reporting requirement, therefore affecting the quality and quantity of the disclosures of the CSR performance.

Further, using verified disclosures on CSR performance versus unverified disclosures on CSR performance may impact the analysis of the relationship between CSR performance and tax aggressiveness. Many earlier researchers engaged in the self-collection, categorisation, and scoring of disclosures on CSR performance (e.g., Hamid *et al.*, 2017, 2018; Mohanadas *et al.*, 2020), introducing the potential for self-bias in the assessment process. While Wahab *et al.* (2022) employ CSR performance scores from CSRHub, they independently collected and scored the categorisation of CSR performance reporting, introducing the potential for self-biases. Self-collected data lack reliability and credibility as it can be influenced by how the information is being evaluated, such as self-biases, because of the rating used (Creswell, 2014). While using self-collected data in early CSR performance and tax studies in Malaysia was justified due to limited third-party providers offering disclosures on CSR performance, the landscape has since evolved. Moreover, Mohanadas *et al.* (2020) propose using measures to safeguard the veracity of disclosures on CSR performance, as the researchers themselves are mindful of the unverified disclosures on CSR performance made in annual reports and companies websites. In recent years, third-party providers like Refinitiv, CSRHub, Bloomberg, and others have become available, offering accurate and transparent disclosures on CSR performance free from self-biases; thus, the study makes use of CSR performance issued by these providers as it is more viable and reliable.

Additionally, many earlier studies relied on *ETR* as a proxy for tax aggressiveness and overlooked loss-making companies in their sample selection. Hanlon and Heitzman (2010) and Lanis and Richardson (2015) argue that using *BTaxDiff* is more effective in detecting various forms of tax aggressiveness, including non-conforming tax aggressiveness when compared to *ETR*. Moreover, long-run cash *ETR* (*LETR*) can address timing issues and

unexplained year-to-year discrepancies, providing more stability in the results and correcting potential misrepresentations of *ETR*, especially in the presence of carried-forward losses. Atwood and Reynolds (2008) propose that it is essential to examine carried-forward losses as these losses can be deducted against current-year tax, thus reducing current-year tax payments. In Malaysia, loss-making companies have the option to offset their carried-forward losses against the income of another entity within the group, allowing them to employ aggressive tax strategies. Given the government's concern about potential revenue loss, there is a pressing need for research to investigate tax aggressiveness, particularly from the perspective of CSR performance, specifically considering loss-making companies. This is crucial for maintaining ethical business practices and helps evaluate whether tax practices align with CSR performance or if a potential contradiction could impact the company's image. Further, exploring the use of *BTaxDiff* and *LETR* as proxies for tax aggressiveness is crucial in providing a comprehensive understanding of the dynamics between tax practices and corporate social responsibility.

Besides, limited studies examine the individual dimensions of CSR performance. Most prior studies looked at CSR performance broadly or focused on aggregated effects rather than individually isolating and examining each dimension. A nuanced approach that dissects these dimensions could reveal specific impacts on tax behaviour. The study by Mohanadas *et al.* (2020) uses individual themes, not dimensions of CSR performance. Each dimension has specific themes covered; for example, the social dimension of CSR performance covers community, human rights, product responsibility, and workforce, which may impact tax aggressiveness differently. This study offers different insights into how individual CSR performance dimensions interact with tax policies or practices compared to older studies. The

study considers how local or sector-specific factors influence the relationship between CSR performance and tax aggressiveness by incorporating changes in tax laws, the introduction of the SRG effect and the F4GBM Index effect. Changes in policy or regulatory environments might necessitate fresh research to understand how different CSR performance dimensions affect tax behaviour under new conditions or regulatory frameworks. For example, the study by Mohanadas *et al.* (2020) analysed 182 companies listed in Bursa Malaysia from 2010 to 2012. Mohanadas *et al.* (2020) find that the average CSR performance of public listed companies (PLCs) is low, with some not performing any activities, especially on environmental performance, during the period tested. Mohanadas *et al.* (2020) study was conducted during the infancy stage of the mandatory stage of CSR performance and before the issuance of the detailed SRG 2015. As such, it may affect the quantity and quality of total CSR performance and the individual dimension of CSR performance, as some companies have yet to fully grasp the CSR performance reporting requirement. In summary, while prior research might have explored the relationship between CSR dimensions and tax, there are often new angles, updated contexts, and evolving methodologies that can provide deeper or more relevant insights. Moreover, tax aggressiveness is evolving, and companies are implementing new tax strategies, which need new studies using new data to examine the evolving relationship. Thus, examining how each dimension of CSR performance fully interacts with tax aggressiveness is necessary.

More specifically, the research questions raised in this study are:

- (1) What is the relationship between CSR performance and tax aggressiveness of listed companies in Malaysia?
- (2) How do different dimensions of CSR performance relate to tax aggressiveness?
- (3) Does the issuance of SRG exert an influence on the relationship between CSRs

performance (overall CSR performance; CSR's individual dimensions) and tax aggressiveness in Malaysian listed companies?

- (4) Does the F4GBM Index have an impact on the relationship between CSR (overall CSR performance and the individual dimensions) and tax aggressiveness of Malaysian listed companies?

2.8 Summary

This chapter provides a comprehensive review of tax aggressiveness, encompassing the definition derived from reviewing previous studies and the specific definition that this thesis adopts. To better understand CSR performance's role, a description of the development of CSR performance, the evolution of CSR performance's definition, the definition adopted by the thesis, and previous research on CSR performance are detailed in the chapter. The chapter then discusses the determinants and consequences of tax aggressiveness based on previous research. Given the ongoing debate and conflicting views on the relationship between CSR performance and tax aggressiveness, this chapter reviews prior studies, offering evidence that some consider tax as part of CSR performance. In contrast, others perceive tax and CSR performance as substitutes. When companies perceive tax as an integral part of CSR performance, they prioritise paying their fair share of taxes, considering it an ethical obligation to support government efforts in providing social services. Conversely, if companies view tax and CSR performance as distinct practices, they may treat tax aggressiveness as a substitute for CSR performance. In such cases, socially responsible companies might engage in tax aggressiveness to shield themselves from potential reputational damage, using CSR performance as a tool to manage their image and protect their operational standing. The moral implications of not paying taxes may not be a primary concern for these companies.

The chapter then reviews studies which use the individual dimension of CSR performance to provide further insights into how the individual dimension of CSR performance relates to tax aggressiveness. The chapter also reviews the literature on mandatory disclosure and regulations on CSR performance to clarify whether guidelines and rules can improve companies' stance on tax aggressiveness. Finally, the review of existing literature on CSR performance and tax aggressiveness reveals a research gap in the context of Malaysia. The following chapter discusses the thesis's theoretical framework and hypotheses.

CHAPTER 3 THEORETICAL FRAMEWORK

3.1 Introduction

This chapter lays out the theoretical and conceptual frameworks and the thesis hypotheses. The chapter starts with section 3.1, which introduces the chapter. Section 3.2 explains the theoretical framework of the thesis by highlighting first the theories commonly used in the research of CSR performance and tax aggressiveness and then the merits of stakeholder theory and shareholder theory. This examination underpins the hypothesis formulation of the thesis in Section 3.3. Section 3.4 explains the conceptual framework used to examine the relationship between CSR performance and tax aggressiveness, and the final section summarises the chapter.

3.2 Theoretical Framework

The theoretical perspective in a study reflects the researcher's theoretical orientation and plays a crucial role as a filter for choosing and interpreting the data (Adom *et al.*, 2018). The theoretical framework is based on existing theories in research related to a study's hypothesis (Grant & Osanloo, 2014). Researchers employ theories to understand and predict when different theoretically comparable events occur. Therefore, researchers can combine one or more theories in the theoretical framework to provide the needed structure or foundation for their research (Adom *et al.*, 2018).

Prior research on the relationship between CSR performance and tax aggressiveness has employed various theories such as risk management, corporate culture, legitimacy, and resource-based theory to guide their research (Col & Patel, 2019; Hoi *et al.*, 2013; Lanis & Richardson, 2013; Watson, 2015). These theories have traditionally been employed to

elucidate the motivations behind firms participating in CSR performance. For example, legitimacy theory explains how companies employ CSR performance to legitimise their actions by reporting their CSR performance. However, this thesis aims to examine whether CSR performance drives tax aggressiveness and endeavours to expound upon whether companies actively involved in CSR performance may also exhibit tax aggressiveness. While stakeholder theory acknowledges legitimacy concerns, it offers a more nuanced perspective by addressing how companies manage diverse stakeholder groups to enhance, sustain, or restore legitimacy. It provides a more generous and altruistic corporate approach where the corporation strives to balance the needs of its various stakeholders (Mohanadas *et al.*, 2020). In contrast, legitimacy theory concentrates on the overall relationship between the organisation and society, neglecting the distinct treatment of individual stakeholders.

By focusing solely on shareholders, shareholder theory exhibits a more egocentric orientation. Tax avoidance, employed as a strategic measure to enhance firms' profitability, leads to tax savings, and shareholders reap the benefits in the form of dividends (Graham *et al.*, 2014). Consequently, companies may adopt a tax aggressive stance in pursuit of these financial advantages.

As companies are "real world entities" similar to "individuals" (Lanis & Richardson, 2015, p.441), it is only natural that ethical practices and tax aggressiveness tendencies of these companies differ (Avi-Yonah, 2008). This thesis embraces stakeholder and shareholder theories to elucidate the factors influencing firms in their decisions to either embrace or abstain from tax aggressiveness alongside engaging in CSR performance. By their very nature, the stance of stakeholder and shareholder theories on corporate tax aggression is somewhat contradictory. The contradiction between the two theories may better explain why corporate

responsible companies practise tax aggressiveness. The following section provides a more in-depth examination of stakeholder theory and shareholder theory and how these theories fit in this research.

3.2.1 Stakeholder Theory

Stakeholder theory serves as a comprehensive framework encompassing various theories related to ethics, organisational management (Phillips *et al.*, 2003), and the responsibilities held by companies towards both their internal and external shareholders (Freeman, 2010). It explores the reciprocal obligations among stakeholders and their shared commitment to the well-being of the company (Fassin, 2012). One of the assumptions of stakeholder theory is that companies are a part of the broader social system in which they operate (Islam & Deegan, 2008).

The origin of stakeholder theory can be traced to a book by Edward Freeman titled *Strategic Management* in 1984. From the inception of stakeholder theory, it has grounded itself as an alternative to economic theories (Freeman, 2010). Stakeholder theory is a strategic management tool corporations use to create value for the firm by building fair and durable relationships with their respective stakeholders (Dmytriyev *et al.*, 2021). What makes stakeholder theory different from traditional economic theories is that while there is an emphasis on value creation for the corporation, it incorporates social and moral dimensions into the management of the corporation (Dmytriyev *et al.*, 2021). Freeman's inclusion of stakeholders in the economic equation brings about ethical implications as the company's goal is to enrich all its stakeholders and not solely to maximise its shareholders' wealth (Goyal, 2020).

3.2.1.1 The Relationship between Companies and Stakeholders

In the past, businesses were expected to operate strictly according to the law; however, in the present day, they are expected to act within the spirit of the law (Hasseldine & Morris, 2013). In those bygone days, society was content with corporations claiming that they contributed to society by creating jobs or product innovations. In the current environment, stakeholders expect more from corporations; companies are expected to give back to society (Goyal, 2020). This aligns with the social contract that exists between companies and society whereby companies need to comply with the requirements of the law and moral values in their business operations, as mentioned by Carroll (1991, 2020). Companies have a wide range of stakeholders, including shareholders, employees, customers, suppliers, environmentalists, government, and other groups or individuals who can be affected or are affected by the achievement of the organisation's objectives (Freeman, 2010, p.46). As such, company management needs to balance the needs of the different stakeholders, as their needs and expectations can be conflicting, complementary, or cooperative at times (Branco & Rodrigues, 2007; Clarkson, 1995; Neville & Menguc, 2006). Therefore, this gives rise to stakeholder management, which involves stakeholder identification, interpretation of their interests and needs, and construction of relationships based on company objectives (Mainardes *et al.*, 2011).

Donaldson and Preston (1995) categorise their stakeholder theory into descriptive/empirical, instrumental, and normative strands. The descriptive/empirical strand explains the company's specific characteristics and behaviour, such as how a company is being managed and how board members' function. The normative strand defines the morals, principles, and norms of the society a company operates, and should follow. It focuses on

fairness and equality in the treatment of stakeholders and their moral rights. In comparison, the instrumental strand describes how a business should operate and how a company manages its stakeholders to achieve its objectives.

Gray *et al.* (1996) explain stakeholder theory from the ethical perspective, which concentrates on the moral rights of stakeholders and adopts accountability to all stakeholders. From an ethical perspective, companies must treat their stakeholders equally and fairly (Deegan, 2014). Companies should consider not only the interests of their influential stakeholders who provide resources to the companies but all the interests of their stakeholders. According to the ethical perspective, companies are not viewed as tools that maximise shareholders' wealth but as tools that meet all stakeholders' expectations (Deegan, 2014). In their study, Kim *et al.* (2012) find evidence of companies engaging in CSR performance to meet ethical expectations instead of responding to more opportunistic incentives.

Deegan (2014) and Mitchell *et al.* (1997) expound on stakeholder theory through the lens of the managerial perspective of stakeholders, emphasising that management tends to prioritise meeting the expectations of those stakeholders who provide critical resources the companies need. When meeting the expectations of stakeholders, companies do not give equal rights and consideration to all their stakeholders but pay more attention to stakeholders who are essential to their continuous survival (Deegan, 2014; Mitchell *et al.*, 1997). To identify essential stakeholders, it depends on their power, legitimacy, and urgency (Mitchell *et al.*, 1997). Power, the first attribute, can be classified as either utilitarian, normative, or coercive. According to Mitchell *et al.* (1997), the utilitarian power of the stakeholder refers to the power of the stakeholder to control or hold over the company's resources or information. Coercive

power (threats or strength) is the power to influence people to do something they never thought of doing, and normative power covers the ability to access media and take legal action against the company (Mitchell *et al.*, 1997).

Legitimacy, the second attribute, is synonymous with Suchman's (1995) legitimacy theory, i.e., the actions of a company must be desirable and align with the socially constructed context of society. Legitimacy recognises the stakeholders' rights in the company, their moral claim, and the risk the stakeholders have to bear in the relationship. However, this perspective of the stakeholder theory is more specific in recognising how companies handle different groups of stakeholders to improve, maintain or repair legitimacy (Suchman, 1995). Putting it differently, stakeholder theory emphasises the legitimate relationships of multiple stakeholders in a social context, which include individual, organisational, and society (Mitchell *et al.*, 1997). Urgency, the third attribute, refers to "the degree to which stakeholder claims call for immediate attention" (Mitchell *et al.*, 1997, p.867).

3.2.1.2 Stakeholder Theory, CSR Performance and Tax Aggressiveness

Stakeholder theory is used in CSR performance research to examine how CSR performance gains or maintains support from specific stakeholder groups and is an excellent way to explain companies' actions to their respective stakeholders (Branco & Rodrigues, 2007; Michelon & Parbonetti, 2012). As corporate citizens, businesses derive benefits from the use of public infrastructure, and it is only justifiable that corporations play a role in the development and maintenance of such infrastructure and contribute to the sovereign and society in which a company operates (Cabezas, 2015; Jenkins & Newell, 2013). The success of businesses is intrinsically tied to various stakeholders' support, involvement, and contributions (Freeman *et al.*, 2010). Hence, management needs to understand how the actions of the companies affect

their stakeholders or how companies are affected by the actions of stakeholders to manage their relationship with stakeholders effectively. By doing so, companies can maximise their value (Garriga, 2014). Clarkson (1995) divides stakeholders into two groups, i.e., primary and secondary, according to their rights, ownership interest, and claims in the company's operations, past, present, and future.¹²

On one hand, governments, as important stakeholders, require revenue for public services, infrastructure, and wealth redistribution. Therefore, it is morally correct for companies to pay a fair amount of taxes to a sovereign nation, especially given the global challenges of revenue shortfalls and social issues faced by governments worldwide (OECD, 2019). Tax payments, as contributors to social services benefiting society, establish a legitimate and moral claim that society, as stakeholders, has on companies. As Mohanadas *et al.* (2020) note, paying taxes is key for companies to honour their obligations towards the society they operate in. Corporate tax, in this context, becomes a tool for financing development programs, highlighting the pivotal role businesses play in actively contributing to societal advancement (Avi-Yonah, 2008; Christensen & Muphy, 2004; Martinez, 2013; OECD, 2019). In accordance with stakeholder theory, companies are expected to fulfil their responsibility by paying their fair share of taxes, thereby acknowledging their accountability to various stakeholders.

¹² Primary stakeholders include shareholders, investors, employees, suppliers, customers, government, and the local community. This group of stakeholders conducts business activities or provides infrastructures for the companies, whose cooperation is vital for the company's continuous growth. Failure to retain the collaboration and participation of its primary stakeholders can be the downfall of the company's operation (Clarkson, 1995). The secondary stakeholders include non-government organisations (NGOs) and the media, who do not have business activities with the company but can influence or be influenced by the company's operation. The survival of a business is not dependent on its secondary stakeholders (Clarkson, 1995). However, secondary stakeholders can cause significant damage to a business operation (Freeman, 2010).

On the other hand, the significance of the CSR performance aspect within corporate tax is increasingly crucial. This aligns with the growing expectations for companies to prioritise the best interests of *all* stakeholders. When companies adopt tax aggressive behaviour, it is the public that bears the brunt, as reduced government revenue hinders spending on essential development projects. To strike a balance among all stakeholders, CSR performance-focused companies need to ensure they contribute their fair share of taxes. This approach aligns with the principle of CSR performance and supports the broader well-being of society by ensuring adequate funding for public initiatives. The complementary relationship between CSR performance and corporate tax aligns with stakeholder theory, where companies create value for all their stakeholders. In other words, stakeholder theory suggests a negative relationship between CSR performance and tax aggressiveness.

Hardeck and Kirn (2016) use stakeholder theory and legitimacy theory to examine the relationship between CSR performance and tax disclosure and find that companies that are more tax aggressive and experience adverse media reports on tax issues and companies associated with high-tech and extractive sectors have higher disclosures. Hillenbrand *et al.* (2019), in their examination of stakeholders' expectations of corporate tax, find society to be frustrated with small tax payments made by companies and the costs society has to incur. Similarly, Amidu *et al.* (2016, p.15) argue that tax aggressiveness “enables companies to reap the benefits of corporate citizenship without accepting the costs society must bear”. Hence, to safeguard their corporate citizenship, companies need to secure ongoing support from the communities in which they operate. Consequently, it becomes imperative for companies to manage the diverse interests of their various stakeholders. It is apparent that stakeholder theory provides a framework for delving into the intricate relationship between companies

and their stakeholders. It allows for an exploration of the interests of various stakeholders in the decision-making processes and their operations.

3.2.2 Shareholder Theory

When well-established CSR performance-centric companies, such as Starbucks, engage in tax aggression, a pertinent question arises: why would a company committed to CSR performance resort to actions that are detrimental to society, like tax aggression? Stakeholder theory by itself does not provide the answer to this question. Leveraging CSR performance as a strategic management tool to mitigate negative perceptions and consequences resulting from corporate tax aggressiveness might be explained using shareholder theory.

3.2.2.1 What is Shareholder theory?

Under shareholder theory, the primary duty of a corporation is the maximisation of shareholders' wealth (Friedman, 2007). Essentially, this means that in the management of a corporation, shareholder interest ranks above other corporate stakeholders, such as employees and society. To understand why such importance is placed on the shareholders would entail looking at the origins of the shareholder value theory.

The root of shareholder theory began in the late 18th century during the Industrial Revolution when the business structure changed from small family-run business entities to largely owned public corporations. This led to a form of governance called managerialism (O'Connell & Ward, 2020). However, in the 1970s, US corporations faced stiff competition from foreign corporations, resulting in a share price decrease. The continuous widespread share decline throughout the 1980s and 1990s led to policymakers and regulators questioning the role of management and the board of directors and their duty towards shareholders (O'Connell & Ward, 2020). In economic theory, agency theory identifies the inherently self-

serving human nature as the underlying cause of the decline in corporate performance. This theory contends that decisions made by the board are primarily for their own benefit rather than that of the shareholders (O'Connell & Ward, 2020). As a result, steps were taken to make the maximisation of shareholder wealth the focal goal of corporations (Friedman, 2007; O'Connell & Ward, 2020).

3.2.2.2 Shareholder Theory and Tax Aggressiveness

Four main reasons to support the primacy of shareholders over other stakeholders are agency, control, residual claims, and congruence with the social wealth perspectives (O'Connell & Ward, 2020). *First*, under the residual claim's perspective, shareholders bear the most compared to other stakeholders, as upon the winding up of the company, they are only entitled to residual value. Even though shareholders provide the funds, their claims to the assets rank below other claimants. Therefore, as the board of directors' decisions directly affect shareholders' rights, their goal should be the maximisation of shareholders' wealth.

Second, from the perspective of congruence with social wealth, the belief is that maximising shareholders' wealth also benefits society. Thus, when companies reduce tax burden through tax aggressiveness, society stands to benefit. This is because companies have more funds for investment, fostering innovation and creating job opportunities, leading to economic development and improving social welfare (Hardeck & Kirn, 2016). This suggests that CSR performance and tax payments can act as substitutes in driving positive economic and social outcomes (Davis *et al.*, 2016). Friedman (1970, 2007) argues that the only social responsibility of a business is to increase its profitability within the rule of the game and without deception or fraud. Literature shows that many corporations are applying Friedman's principles and arranging their tax affair, even to the extent of paying the least tax possible, as

the generally accepted legal principle is that taxpayers are allowed to do so, as long as it is within the confine of the law (Lanis & Richardson, 2018; Whait *et al.*, 2018). Despite being against the spirit of the law, tax aggressiveness is still within the purview of the law.

Third, under the control perspective, although operational decisions are in the hands of management, the ultimate control of the corporation remains in the hands of shareholders. As legal owners of the company, voting rights are in the hands of shareholders, which means that shareholders have the power to remove individual directors and even influence board decisions. Whait *et al.* (2018) reveal that pressure from shareholders to produce higher corporate profits causes managers to resort to various ways to reduce costs. Studies indicate that corporate tax is a significant cost for business operations (Mohanadas *et al.*, 2020). Wilson (2009) provides evidence that the average tax shelter generates federal tax savings of USD 375.5 million. Consequently, if managers who successfully minimise corporate taxes are well rewarded and benefit from more incentives, they are encouraged to be more aggressive in tax planning.

Fourth, from the agency perspective, the corporation is seen as a "nexus of contract" (Alchian & Demsetz, 1973; Avi-Yonah, 2008). The nexus of contract theory defines a company as a private contract between shareholders and the company where stakeholders are considered external to the company (Koutsias, 2017). This means that the directors/management is contractually bound to maximise shareholders' wealth over other stakeholders, as companies are investment vessels contractually bound to generate profits for shareholders. When the primary goal of corporations is the maximisation of their shareholder wealth, the implication is that companies can take measures to increase their revenue by reducing business operations costs, such as tax payments, even at the expense of other

stakeholders (Laguir *et al.*,2015). Thus, shareholder theory may explain why companies indulge in corporate tax aggressiveness.

Studies such as Inger (2014) and Drake *et al.* (2019) show that companies with higher tax aggressiveness have higher share prices than those less tax aggressive. When companies commit to CSR performance and simultaneously engage in tax aggressiveness, their managers may not perceive tax payments as the most effective means to fulfil their social responsibility goals. Instead, they may view taxation as a potential substitute for CSR performance, leading to a scenario where companies intensify their CSR performance efforts while concurrently reducing corporate tax payments. This perspective aligns with shareholder theory, wherein firms primarily aim to enhance shareholder benefits. Importantly, shareholder theory does not negate CSR performance behaviour but implies that financial incentives should drive CSR performance initiatives. This suggests a positive relationship between CSR performance and tax aggressiveness under shareholder theory.

3.3 Hypotheses Development

3.3.1 Hypothesis 1: Overall CSR Performance and Tax Aggressiveness

Avi-Yonah (2008) suggest that corporate decisions regarding the extent to which corporations are willing to minimise their tax ability are greatly influenced by their stance towards CSR performance. Companies that adopt the value of CSR performance into their business practices see CSR performance as a holistic value that guides all aspects of business practices, including the financial aspect. These companies' policies and actions on CSR performance align with the expected societal norms and ethical behaviour. Tax payments stand as a fundamental contribution a company makes to society (Christensen & Murphy, 2004). This aligns with the EC (2011, p.6), which sees CSR performance as "the responsibility of

enterprises for their impacts on society". Hence, companies employing tax aggressiveness, tax avoidance, or tax sheltering to curtail tax payments are deemed contrary to the principles of CSR performance, as per the OECD (2019) guidelines.

Consequently, some scholars propose that tax payment should be part of CSR performance to society (Avi-Yonah, 2008; Christensen & Murphy, 2004; Lanis & Richardson, 2015). This proposition is consistent with stakeholder theory, which posits that companies need to consider the interests of all stakeholders in their decisions. When it comes to tax aggressiveness, stakeholders may include not only government entities but also the broader society affected by the company's tax practices. Engaging in tax aggressiveness that is perceived as exploitative or socially irresponsible may harm a company's reputation and long-term relationships with stakeholders. Conversely, incorporating responsible tax practices as part of CSR performance can contribute to a positive corporate image and sustainable success. Therefore, a negative relationship between CSR performance and tax aggressiveness is expected.

This assertion finds support in various studies (Hoi *et al.*, 2013; Lanis & Richardson, 2012, 2015; Muller & Kolk, 2015). Lanis and Richardson's (2012) study on 408 publicly listed companies in Australia reveals that the higher the level of CSR performance, the lower the level of corporation tax aggressiveness. Similarly, based on Philippines companies, Santoso *et al.* (2021) find a negative relationship between CSR performance and tax aggressiveness. Furthermore, the literature indicates a shared characteristic between CSR performance and taxation: their contribution to societal welfare. Studies also put forth the proposition that taxes should be regarded as part of CSR performance (Avi-Yonah, 2008; Christensen & Murphy, 2004; Lanis & Richardson, 2015). Consequently, companies demonstrating strong CSR

performance are less inclined to indulge in tax aggressiveness. As a result, it can be argued that if listed companies in Malaysia align their values with those of their stakeholders, they would then perceive tax aggressiveness as socially irresponsible.

Another strand of literature employs shareholder theory to explain the connection between CSR performance and tax aggressiveness. According to shareholder theory, firms primarily prioritise maximising benefits for the shareholders. Tax avoidance can serve as a legal strategy to reduce a significant business expense, potentially decreasing distributable profits to shareholders. Desai and Dharmapala (2009) reveal that tax aggressiveness increases companies' after-tax profits, thus increasing the company's value. As mentioned earlier, some scholars, such as McGee (2010) and Porter & Kramer (2006), argue that for-profit firms are more efficient than governments in resource allocation, contending that they could do better for society by creating job opportunities and providing social and welfare benefits to their workforce, thus promoting a better economy of societies. This perspective suggests that managers of socially responsible firms may not consider corporate tax payments as the most effective means to fulfil their social responsibility objectives.

In alignment with this viewpoint, Davis *et al.* (2016) provide evidence suggesting that taxation can act as a substitute for CSR performance. This substitution relationship typically revolves around the perception of CSR performance as a management tool to counterbalance the negative perceptions associated with tax avoidance behaviour. Likewise, Wahab *et al.* (2022) show a positive relationship between CSR performance and tax aggressiveness and argue that extra cash flow from paying minimum tax could be used to allocate resources to society. Similar findings are also reported in the studies by Col and Patel (2019), Davis *et al.* (2016), and Mao and Wu (2019). Consequently, if Malaysian firms align their values with those

of their shareholders, a positive relationship between CSR performance and tax aggressiveness may be anticipated. However, since prior studies in Malaysia produce mixed results, the thesis hypotheses are non-directional.

Taken together, the first hypothesis is formulated as follows:

H1 (Hypothesis 1): There is a relationship between CSR performance and tax aggressiveness of Malaysian companies.

3.3.2 Hypothesis 1a-1c: Individual Dimensions of CSR Performance and Tax Aggressiveness

Literature suggests that aggregated CSR performance can distract from the importance of the individual dimension of CSR performance (Laguir *et al.*, 2015; Lanis & Richardson, 2012). Mohanadas *et al.* (2020) examine the relationship between CSR performance and tax aggressiveness of 182 publicly listed companies in Malaysia from 2010-2012 and find no statistical evidence of an overall connection between CSR performance and tax aggressiveness. However, they find a significant relationship between community-related and workplace-related CSR performances and tax aggressiveness. Huseynov and Klamm (2012) find that governance strength and diversity concern positively affect tax aggressiveness, whilst the community aspects of CSR performance negatively affect tax aggressiveness. The findings of these studies suggest that various dimensions of CSR performance may exhibit different effects on tax aggressiveness. This calls for a more in-depth examination of the relationship between the individual dimensions of CSR performance and tax aggressiveness. Such an analysis can unveil which specific dimensions of CSR performance are more closely associated with companies' tax policies (Laguir *et al.*, 2015; Lanis & Richardson, 2012). This analysis holds

the potential to provide novel perspectives and valuable insights into strategic decisions, potentially leading to more balanced and ethical corporate practices.

i. Environmental dimension of CSR performance

The government of Malaysia offers various financial incentives for expenditure incurred for renewable energy and income tax exemption to support the growth of environmental activities. As CSR performance arises from demands by stakeholders concerned about the environment, companies who disclose their environmental performance gain a competitive advantage over those who do not (Middleton & Muttonen, 2020), as disclosure adds dimensions to the transparency of CSR performances and its disclosure (Jasni *et al.*, 2020).

Stakeholder theory posits that companies must conform to society's cultural norms and values concerning environmental issues. This assertion is corroborated by existing literature. Laguir *et al.* (2015) find that when companies take proactive steps to protect the environment, they build a positive relationship with their external stakeholders. Additionally, Kweh *et al.* (2017) establish that companies engaging in socially responsible investments gain support from stakeholders who value CSR performance in business. According to stakeholder theory, socially responsible companies need to comply with the rules and regulations set by the government and conform to society's cultural norms and values concerning environmental issues. Firms involved in environmental activities often face heightened scrutiny from stakeholders, including customers, investors, and regulatory bodies. Engaging in tax aggressive behaviour could undermine their reputation and credibility, potentially leading to backlash and loss of stakeholder trust. Companies prioritising environmental sustainability may have values and mission statements that align with responsible corporate citizenship. This

alignment may discourage them from engaging in practices that are viewed as unethical or irresponsible, such as aggressive tax avoidance.

Conversely, publicly traded, environmentally friendly firms may face pressure from shareholders to maximise profits and enhance shareholder value. This pressure can lead them to adopt aggressive tax strategies to boost financial performance. In addition, governments often provide tax incentives and deductions for environmentally friendly activities, such as investing in renewable energy or sustainable practices. Firms may structure their operations to take advantage of these incentives, which could appear as tax aggressive behaviour even though they are within the bounds of the law. Hamid *et al.* (2018) examine the level of ESG disclosure of 34 publicly listed companies in Malaysia and show that the environmental aspect of disclosure significantly affects tax aggressiveness in Malaysia. Therefore, the hypothesis is developed as follows:

H1a: There is a relationship between the environmental dimension of CSR performance and tax aggressiveness in Malaysian companies.

ii. Social dimension of CSR performance

The social dimension of CSR performance concentrates on the company's concern for the human rights of its employees, product responsibility and the social welfare of the communities. In separate studies by Lanis and Richardson, community-based CSR performance is found to be negatively associated with tax aggressiveness for both Australian companies (2012) and US companies (2015). Their findings are supported by Laguir *et al.*'s (2015) study on French companies. These findings show that companies are becoming more aware of their obligations to society and realise the importance of taxes to society's wellbeing. According to stakeholder theory, companies need to navigate and manage the interests of

stakeholders by striking a balance between corporate values and the prevailing social norms in the society in which they operate. Therefore, if Malaysian firms align the values of their stakeholders, a negative relationship between CSR performance and tax aggressiveness is expected.

In congruence with the maxim of shareholder theory, some companies invest in social activities to attract investors who are keen to invest in socially responsible companies. However, as both corporate tax and social costs are expenses, when companies invest more in social activities, there is a greater tendency for companies to be more aggressive in their tax planning. They may substitute the cost incurred with tax savings from aggressive tax planning. These trade-offs occur as financial goals and social goals are sometimes incompatible (Battilana *et al.*, 2022). Thus, if Malaysian firms' orientation is towards maximising shareholders' wealth, a positive relation between CSR performance and tax aggressiveness is projected. Collectively, the following hypothesis is proposed:

H1b: There is a relationship between the social dimension of CSR performance and tax aggressiveness in Malaysian companies.

iii. Governance dimension of CSR performance

The governance dimension of CSR performance reflects top management's stand and commitment in handling CSR performance issues by integrating and balancing shareholder value creation with stakeholder value protection (e.g., Laguir *et al.*, 2015; Law, 2011). Top management undertakes this by conforming with rules and regulations set by the regulators, such as the tax laws and other laws governing their business (e.g., the Code of Corporate Governance, the Companies Act, and the Employment Act) and, in Malaysia, the MCGG. Accordingly, companies gain acceptance from government authorities, non-government organisations, and other key stakeholders. Building on this line of reasoning, stakeholder

theory suggests a negative relationship between the governance dimension of CSR performance and tax aggressiveness.

On the contrary, tax savings can improve companies' cash flow. If Malaysian companies are aligned with shareholder theory, which emphasises shareholder wealth maximisation, corporate governance is expected to have a positive relationship with tax aggressiveness.

Prior literature supports different arguments on the relationship between the governance dimension of CSR performance and tax aggressiveness. Laguir *et al.*'s (2015) and Hamid *et al.*'s (2018) studies show no significant relationship between corporate governance and tax aggressiveness. In contrast, Rahayu and Wibowo's (2023) study of 45 consumer goods companies in Indonesia from 2017 to 2021 shows that effective corporate governance significantly reduces tax aggressive behaviour. While Husevnoy and Klamm (2012) find a positive relationship. Similarly, Burman *et al.* (2023), in examining the relationship between corporate governance and tax aggressiveness of Finnish private firms, find evidence that effective corporate governance leads to more tax aggressiveness. Therefore, if companies in Malaysia value their stakeholders, they are inclined to adhere to the code of corporate governance and contribute their fair share of taxes. However, if companies prioritise the significance of shareholder wealth maximisation, they may opt for an aggressive tax strategy. Consequently, the following hypothesis is developed:

H1c: There is a relationship between the governance dimension of CSR performance and tax aggressiveness in Malaysian companies.

3.3.3 Interaction Effects of SRG and F4GBM

Expanding on previous research, this study investigates the impact of the Sustainability Reporting Guide (SRG) and FTSE4Good Bursa Malaysia Index (F4GBM) on the association

between CSR performance and tax aggressiveness. The SRG, initiated in 2015, mandates all listed companies in Malaysia to disclose their CSR performance (Bursa Malaysia, 2015). Concurrently, F4GBM represents an Environmental, Social, and Governance (ESG) index designed to recognise socially responsible companies (Bernama, 2014; Bursa Malaysia, 2014). This prompts an intriguing question: Does the introduction of SRG and the presence of the F4GBM Index influence the relationship between CSR performance and tax aggressiveness among companies in Malaysia?

3.3.3.1 Hypothesis 2: Sustainability Reporting Guide (SRG)

Bursa Malaysia has mandated companies to comply with the regulations outlined in the SRG. Drawing on stakeholder theory, companies are expected to conform to the stipulations of the SRG and tax laws to secure legitimacy from government authorities and other stakeholders. The coercive power of stakeholders, according to Fallan and Fallan (2019), suggests that companies must follow the mandatory requirements of the SRG and tax laws. Neu *et al.* (1998) find companies are more responsive to powerful stakeholders such as government and regulators. Clarkson (1995) proposes that failure to retain the support of its primary stakeholders may lead to the collapse of the company's operation. Fallan and Fallan (2019), in their study of environmental disclosure in Norway, find a negative relationship between mandatory environmental disclosure and corporate tax aggressiveness behaviour. In contrast, they find a positive relation between voluntary environmental disclosure and corporate tax aggressiveness behaviour. These studies suggest that failure to adhere to the sanction may cause corporations to lose their legitimacy if their actions are made known to the public. Hence, in alignment with stakeholder theory, where regulatory bodies are considered primary stakeholders, companies in Malaysia are anticipated to adhere to the mandatory

requirements, such as SRG requirements. As a result, the introduction of SRG and its enforcement may serve as a regulatory mechanism to compel companies to manage their business practices in a socially responsible manner, potentially reducing instances of tax aggressiveness.

From a shareholder perspective, if the cost of complying with SRG exceeds the cost of non-compliance, Malaysian firms are more inclined to adopt tax aggressiveness strategies to minimise tax expenses and to boost profits.

Taken together, the following hypotheses are developed:

H2: The issuance of SRG affects the relationship between CSR performance and tax aggressiveness in Malaysian companies.

H2a: The issuance of SRG affects the relationship between the environmental dimension of CSR performance and tax aggressiveness in Malaysian companies.

H2b: The issuance of SRG affects the relationship between the social dimension of CSR performance and tax aggressiveness in Malaysian companies.

H2c: The issuance of SRG affects the relationship between the governance dimension of CSR performance and tax aggressiveness in Malaysian companies.

3.3.3.2 Hypothesis 3: F4GBM Index in Bursa Malaysia

Companies that fulfil the stringent conditions and criteria set by Bursa Malaysia and the Financial Times Stock Exchange (FTSE) are listed under this socially responsible F4GBM index. Companies under this index are required to adhere to the rules and regulations established by both Bursa Malaysia and FTSE to maintain their listing in the F4GBM Index of Bursa Malaysia. As such, F4GBM companies are expected to adopt policies and procedures in their work environment, such as equal rights, training workers, and proper waste treatment and handling of emissions to protect the environment in which they operate. As active members

of the community, the management of F4GBM companies is also expected to engage in community projects, taking care of the interests of firm stakeholders. Furthermore, the management of F4GBM companies is expected to adhere to professional codes, demonstrate social responsibility, and pay their fair share of tax obligations. This alignment is consistent with stakeholder theory, wherein F4GBM companies are anticipated to conform to laws and regulations. In this context, highly reputable companies, through listing in the F4GBM Index, may benefit from a more favourable share return. Consequently, under the F4GBM framework, companies are likely to be motivated to invest more in CSR performance and exhibit less tax aggressiveness.

In contrast, shareholder theory posits that F4GBM companies might be more inclined to engage in tax aggressiveness if the potential cost savings from such behaviour exceed the expenses incurred from penalties or sanctions resulting from tax aggressiveness. Considering the arguments presented above, the following non-directional hypotheses are proposed:

H3: The F4GBM Index affects the relationship between CSR performance and the tax aggressiveness of Malaysian companies.

H3a: The F4GBM Index affects the relationship between the environmental dimension of CSR performance and tax aggressiveness in Malaysian companies.

H3b: The F4GBM Index affects the relationship between the social dimension of CSR performance and tax aggressiveness in Malaysian companies.

H3c: The F4GBM Index affects the relationship between the governance dimension of CSR performance and tax aggressiveness in Malaysian companies.

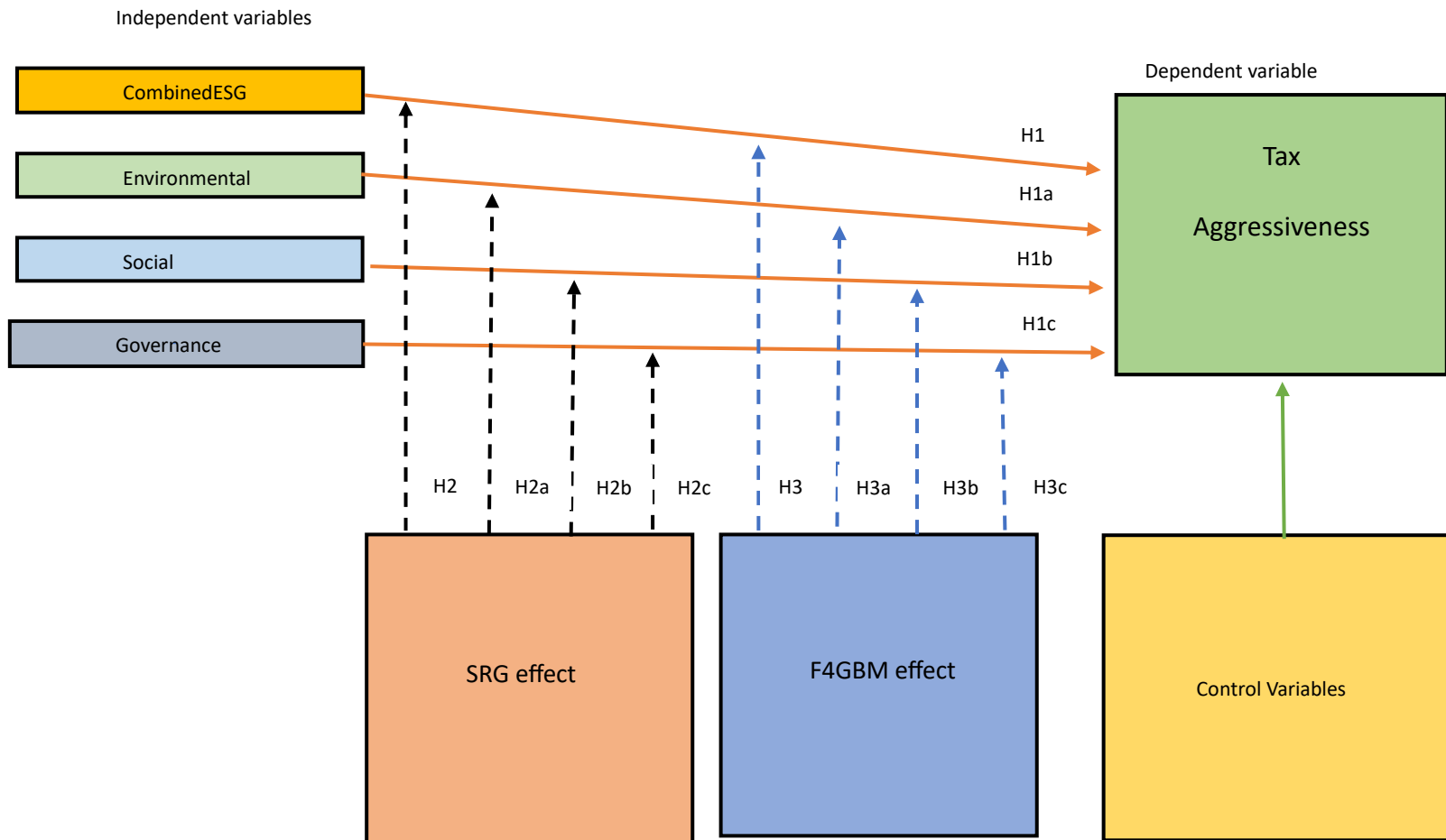
3.4 Conceptual Framework

Figure 3-1 shows the research framework for the thesis, which indicates the relationship between the dependent variable, tax aggressiveness and independent variables, CSR

performance and its individual dimensions and control variables. It also highlights the role of the interaction effect of SRG and F4GBM on the relationship between CSR performance and tax aggressiveness.

Figure 3-1

Conceptual Framework



3.4 Summary

This chapter introduces the employed theoretical framework, encompassing stakeholder and shareholder theories. Subsequently, it delves into the conceptual framework designed to scrutinise the relationship between CSR performance and tax aggressiveness. The theoretical framework is then applied to articulate the hypotheses. The next chapter details the research methodology, which includes an overview of the sampled companies and a thorough discussion of the key variables under consideration.

CHAPTER 4 RESEARCH METHODOLOGY

4.1 Introduction

This chapter briefly outlines the research philosophy, and the paradigm employed in exploring the relationship between CSR performance and tax aggressiveness of Malaysian listed companies (Section 4.2). The research philosophy and paradigm form the basis of the methodology used in addressing the research questions and the hypothesis outlined in the earlier chapters. The following sections (Sections 4.3 to 4.7) describe the sample and data selection process, the choice of proxies as dependent variables and the selection of independent and control variables used in the thesis. Section 4.8 presents the model specification used, and section 4.9 provides the chapter summary.

4.2 Research Philosophy and Method

Creswell (2014) defines a research methodology as the broad or general approach a researcher adopts in investigating a phenomenon driven by the research philosophy and paradigm. Therefore, the research philosophy involves the assumptions on how the research problem is viewed, such as the foundational beliefs, perceptions, and assumptions on how the researcher views the truth and reality that guide the directions of a research (Crotty, 1998; Guba & Lincoln, 1994; Saunders *et al.*, 2009). A paradigm is "*a way of examining social phenomena from which particular understandings of these phenomena can be gained, and explanations attempted*" (Saunders *et al.*, 2012, p.118). As such, the paradigm reflects the researcher's way of seeing the world, reality, and knowledge, which determines how the research is conducted. The research philosophy and paradigm drive the methodology used to explore the relationship between CSR performance and tax aggressiveness. In this thesis, the

companies' tax behaviour and attitude towards CSR performance and their relationships are observed as a natural phenomenon or object. Though companies provide goods and services to society, they also share the use of the public infrastructure and other facilities. Since their operations might impact society, companies are expected to be ethical and responsible corporate citizens through CSR performance and tax payments to the government for social services that benefit the wider society.

Thus, the thesis suggests an association between CSR performance and tax aggressiveness by taking a positivist stance, believing that the validity of this phenomenon can be confirmed through scientific inquiry (Bryman, 2012). From a positivist stance, the existence of the real truth is acquired independent of the phenomenon but replicable through the use of empirical hypotheses (Gill & Johnson, 2002) and quantitative data with the aid of statistical analysis (Saunders *et al.*, 2009) to test the theory-driven hypotheses (Bryman, 2012). The aim is to explain the relationships between dependent and independent variables while controlling for other variables through a cause-and-effect logic (Bryman, 2012). The positivist approach focuses on establishing the relationship between CSR performance and tax aggressiveness. Thus, the positivist approach is the best fit for this research due to the presumption that a relationship exists between these variables. It is important to employ a well-defined and structured methodology to examine the relationship while remaining impartial and independent of the data.

Further, the research applies the existing shareholder and stakeholder theories in the early stage to form the hypothesis that a relationship exists between CSR performance and tax aggressiveness and to seek an explanation for that relationship. Unlike the interpretivist, the researcher was not directly involved with producing the research data or reassessing the

application of theories at various stages of the research (Bryman, 2012; Gray, 2014; Guba & Lincoln, 1994). Interpretivism research centres on understanding the respondents' behaviour from various constructed realities and the reliability of the findings that depend on qualitative procedures, which often involve an in-depth analysis of a small sample size (Creswell, 2014; Gray, 2014).

The research method refers to the procedures or techniques used to gather and analyse data for specific research questions (Creswell, 2014; Crotty, 1998). Based on the positivist stance, this study adopts a deductive quantitative approach. The initial steps in the deductive process involve the research reviewing the literature on taxation, tax aggressiveness, CSR performance, and the relationship between them. This is followed by the formulation of the hypotheses informed by the established literature and driven by the selected theories and the use of numerical data to examine the hypotheses (Saunders *et al.*, 2009). By using the quantitative method, this research collects and analyses the numerical secondary data used to explore the relationship between CSR performance and tax aggressiveness through statistical analysis tools.

4.3 Data and Sample Selection

The data used in this thesis are grouped into CSR performance and company financial data. The CSR performance data used is obtained from the Refinitiv (previously Thomson Reuters ASSET4)¹³ website. The thesis used ASSET4 to source its CSR performance data as ASSET4 are widely used by researchers in prior studies for the comprehensiveness of its CSR performance data and the reliability of the information provided (De Villiers *et al.*, 2022). The data for tax

¹³ The thesis uses the term ASSET4 to refer to Thomson Reuters ASSET4 and Refinitiv Eikon, and it has been renamed recently as LSEG Data & Analytics after the study has been carried out.

aggressiveness and other financial data of the sampled companies are collected from the annual reports extracted from Bursa Malaysia and Thomson Reuters Asset4 websites. Recognising the potential disruption caused by the COVID-19 pandemic on business operations, the thesis incorporates industry and year dummies as control variables to address any abnormal patterns in the data.

4.3.1 Sample

The sample for this thesis comprises Malaysian publicly listed companies. Bursa Malaysia operates through three markets: the Main Market, the ACE Market, a secondary market, and the LEAP market. The Main Market is the prime market where established companies have fulfilled the requirements set by Bursa Malaysia in terms of size, quality and operations (Bursa Malaysia, 2022). Companies must demonstrate that they have achieved minimum size through market capitalisation or a minimum profit track record. The ACE Market is sponsor-driven for companies with growth prospects (Bursa Malaysia, 2022). The LEAP Market is an alternative avenue for Small and Medium Enterprises (SMEs) and companies to raise funds through the capital market. It connects these SMEs with Sophisticated Investors who believe in their business and ideas (Bursa Malaysia, 2022). There are 782 listed companies in the Main Market in Bursa Malaysia as of 2021, consisting of 21 sector classifications. Out of 782 companies in the Main Market, 31 are classified as being in the financial sector (Bursa Malaysia, 2022).

A purposive sampling approach is adopted since this study does not involve self-calculated CSR performance scores. This method enables the identification of companies with CSR performance disclosures from unbiased third-party sources, as Palys (2008) recommends. Specifically, companies falling under the ASSET4 category are selected, focusing on those

possessing significant combined CSR performance scores and distinct environmental, social, and governance dimensions. Moreover, ASSET4 is one of the listings that provide CSR performance scores for companies in Malaysia. The study covers a 14-year period from 2008, when Bursa Malaysia mandated CSR performance reporting for all publicly listed companies and ASSET4 began providing data on Malaysian publicly listed companies, to 2021, the most recent year with complete data. This 14-year enables a longitudinal analysis of the impact of SRG regulation on the relationship between CSR performance and tax aggressiveness. The timeframe was chosen to include eight years and six years after the issuance of SRG, ensuring a balanced assessment.

Moreover, the period chosen covers the mandatory CSR performance by the authority. The CSR performance framework issued by Bursa Malaysia looks at the environment, community, marketplace and workforce (Bursa Malaysia, 2012). However, there was no specific guide to help companies disclose their CSR performance, which gives companies the discretion over their CSR performance. Then, in 2015, Bursa Malaysia issued SRG 2015 to guide companies' CSR performance. The Malaysian SRG is based on GRI, and it is included in the SRG, and companies can choose to disclose their performance according to SRG or GRI. Therefore, the chosen period allows for a more comprehensive and in-depth analysis of the evolution of the relationship between CSR performance and tax aggressiveness over time, particularly from the perspective of Malaysia.

Furthermore, prior studies conducted in China by Ding *et al.* (2022) and Jiang *et al.* (2022) supported a more extended study period, which produced mixed results. Ding *et al.* (2022) found a negative relationship between CSR performance and tax aggressiveness, whilst the study by Jiang found companies to be more tax aggressive after mandatory CSR

performance. A study spanning a longer period before and after the introduction of mandatory CSR performance requirements would provide better insights into the impact on companies CSR performance and tax practices (Ding *et al.*, 2022). Additionally, a growing number of studies offer early evidence supporting the real effect of regulations on CSR performance. However, the results are based on the early phase of regulations on CSR performance rather than the real impact after implementation. As such, more studies over a more extended period are needed to fully understand its real effect (Haji *et al.*, 2023).

Sixty-four firms were chosen as the sample companies for the period tested. Financial institutions were excluded from the final sample from this pool because the industry is subject to different local regulations compared to other sectors. All the sample companies are enjoying the tax incentives given by the government. The exclusion resulted in 56 sample companies and 784 possible firm-year observations. After removing those observations with missing parameters, the final sample of 556 firm-year observations, as indicated in Table 4.1, is used to test the hypotheses.

Table 4-1

Sampled companies and firm-year observations

Companies	Total
Companies in total from ASSET4	64
<i>Less:</i> Financial institutions	<u>(8)</u>
Total companies used for analysis	<u>56</u>
Loss companies	<u>18</u>
If loss companies are removed	<u>38</u>
Possible firm-year observations	784
Firm-year observations with missing parameters	<u>(228)</u>
Firm-year observations with complete parameters	556

Table 4.1a below shows the breakdown of the sample companies' industry sectors.

Table 4-1a*Breakdown of industry sectors of sampled companies*

Sectors	Sampled companies
Consumer Products & Services	16
Telecommunication & Media	6
Industrial Products and Services	5
Energy	5
Plantation	5
Construction	2
Healthcare	5
Property	4
Transportation & Logistic	3
Technology	1
Utilities	4
Total	56

Following the example of prior studies, this thesis retains loss companies in the sample (e.g., Edwards *et al.*, 2022; Henry & Sansing, 2018; Ling & Wahab, 2019; Razali *et al.*, 2022; Schwab *et al.*, 2023). Recent studies have shown that loss companies do engage in tax aggressiveness (Edwards *et al.*, 2022; Razali *et al.*, 2022; Schwab *et al.*, 2023). Eliminating loss companies could result in a scarcity of knowledge on the tax strategies of the loss firms (Edwards *et al.*, 2022). Atwood and Reynolds (2008) and Manzon and Plesko (2001) reiterate that it is vital to analyse the relevant value of brought forward loss utilised in the current year's income as it reduces the current income of companies (Henry & Sansing, 2018). Additionally, the Schwab *et al.* (2023) study indicates that about 29% of loss firms in the US engage in tax aggressiveness, which causes the government to lose over USD 3.5 million annually. The authors elucidate that loss firms with continuous losses gain economic benefits in engaging in tax aggressiveness, contrary to the belief that loss firms do not reap economic benefits. In addition, they suggest that persistent loss firms are likely to indulge in tax aggressiveness when they expect to be profitable in future years. As such, this study includes companies with

losses. This is because, *first*, the losses brought forward can impact the calculations of temporary and permanent differences of book-tax differences (Atwood & Reynolds, 2008).

Second, in Malaysia, companies with losses are given tax benefits by setting off their current year business loss against all sources of income in the current year and carried forward losses to be deducted against business income in subsequent years, but limited to ten consecutive years of assessment starting the assessment year 2019 (IRBM, 2022b).

Third, a loss company can surrender its carried-forward losses to another company within the group to claim as a deduction against income. Companies can use losses to reduce taxable income as part of aggressive tax strategies (Schwab *et al.*, 2023; Wilkie, 1992). For instance, when the loss brought forward is offset against the current year's income, this will cause a positive/higher *BTaxDiff*, which indicates tax aggressiveness (Wilkie, 1992). Therefore, by removing loss companies, the extent of tax aggressiveness cannot be accounted for. Furthermore, the increase in companies incurring losses has attracted the attention of governments, who are concerned that companies are using the losses to engage in tax aggressiveness through tax relief (Organisation for Economic Co-operation and Development (OECD), 2011).

Fourth, the study examines whether the interaction of the F4GBM Index impacts the relationship between CSR performance and tax aggressiveness of Malaysian companies. As mentioned in the earlier chapters, Bursa Malaysia launched the F4GBM Index in December 2014 in collaboration with the FTSE Russell to identify Malaysian companies with recognised corporate responsibility practices (Bursa Malaysia, 2014). All constituents of the F4GBM Index must meet internationally benchmarked criteria in line with ESG criteria (Bursa Malaysia, 2014). Therefore, to test H3, the sampled companies from ASSET4 are segregated into two

categories, the first for companies listed under the F4GBM Index of Bursa Malaysia and the second for those not listed in F4GBM. The table below summarises sampled companies listed in the F4GBM index and non-F4GBM companies.

Table 4-1b

Breakdown of F4GBM and non-F4GBM companies

Year	F4GBM	Non F4GBM
2014	27	15
2015	27	16
2016	27	17
2017	30	18
2018	33	17
2019	36	17
2020	35	19
2021	38	18

4.4 Dependent Variable: Tax Aggressiveness

This section focuses on the measurement of tax aggressiveness used in this thesis, which is obtained primarily from the ASSET4 databases. As the tax information is typically confidential and is not publicly available (Hanlon & Heitzman, 2010), the extant literature on tax aggressiveness has always used proxies to measure tax aggressiveness (Davis *et al.*, 2016; Desai & Dharmapala, 2009; Hanlon & Heitzman, 2010; Hoi *et al.*, 2013; Laguir *et al.*, 2015; Lanis & Richardson, 2012, 2013, 2018; Mohanadas *et al.*, 2020; Yoon *et al.*, 2021). Most tax aggressiveness proxies are calculated from financial statement data (Abid & Dammak, 2021; Chen *et al.*, 2010; Desai & Dharmapala, 2009; Hoi *et al.*, 2013; Laguir *et al.*, 2015; Mohanadas *et al.*, 2020; Yoon *et al.*, 2021). Some researchers also use proxies such as tax haven affiliates or headquarters in tax havens (Col & Patel, 2019; Preuss, 2010, 2012) and companies with tax disputes (Lanis & Richardson, 2013). However, the common proxy used in the literature is the *ETR* (Hamid *et al.*, 2017; Hoi *et al.*, 2013; Jones *et al.*, 2017; Laguir *et al.*, 2015; Wahab *et al.*,

2022; Zeng *et al.*, 2016), Cash *ETR* (Abid & Dammak, 2021; Jiang *et al.*, 2022; Jones *et al.*, 2017; Laguir *et al.*, 2015; Watson *et al.*, 2015), *BTaxDiff* (Abid & Dammak, 2021; Desai & Dharmapala, 2009; Jiang *et al.*, 2022; Lanis & Richardson, 2018; Razali *et al.*, 2022; Yoon *et al.*, 2022), *LETR* (Chen *et al.*, 2010; Davis *et al.*, 2016; Dryeng *et al.*, 2008; Fallan & Fallan, 2019; Zeng, 2016) and current *ETR* (Abid & Dammak, 2021; Mohanadas *et al.*, 2020; Ortas & Gallego-Alvarez, 2020).

The choice of the appropriate proxies for tax aggressiveness depends on the research questions and objectives. As the samples include loss companies, the most appropriate proxy for tax aggressiveness for this thesis is *BTaxDiff*. While *ETR* stands out as one of the most commonly employed proxies for tax aggressiveness, it becomes unavailable in instances where a company reports a loss or zero income for the year. *ETR* uses the current year's income tax divided by profit before tax; thus, the carried-forward loss is not accounted for in the calculation of *ETR*. In addition, carried-forward losses would have been deducted from the reported profit in the computation of taxable income, and the current tax expense would be truncated to zero in the case of a loss event. As such, *ETR* is unsuitable for companies with losses as *ETR* can be distorted by carried forward losses (Hanlon, 2003, as cited in Gebhart, 2017).

The literature supports the use of *BTaxDiff* for tax aggressiveness (e.g., Razali *et al.*, 2022). According to Lanis and Richardson (2015) and Hanlon and Heitzman (2010), *BTaxDiff* effectively detects the likelihood of tax aggressiveness by detecting a significant difference between the book and taxable income, a common characteristic observed among companies actively engaged in tax aggressiveness (Desai & Dharmapala, 2009; Frank *et al.*, 2009). Wahab and Holland (2015) concur that *BTaxDiff* can signal tax planning as companies with large

BTaxDiffs are often associated with a higher risk of tax aggressiveness. In addition, Badertscher *et al.* (2013) assert that flexibility and discretion of accounting rules allow managers to deflate taxable income without affecting book income, which is one of the tax planning techniques. Evers *et al.* (2016) also agree that this measure has been widely used in previous studies to illustrate tax aggressiveness. Further, Mills *et al.* (1998) and Wahab (2016) deduce that large *BTaxDiff* hints at irresponsible tax and the probability of being audited by the tax authority. Taken together, this study uses *BTaxDiff* to measure tax aggressiveness. Furthermore, the use of the *BTaxDiff* proxy is to answer the call for future research in Malaysia to use different proxies of tax aggressiveness, such as *BTaxDiff*, instead of the *ETR* (Wahab *et al.*, 2017) that has been used extensively to examine the relationship between CSR performance and tax aggressiveness in prior literature (Hamid *et al.*, 2018; Mohanadas *et al.*, 2020; Rakia *et al.*, 2023; Wahab *et al.*, 2017).

Several methods exist for calculating *BTaxDiff*, as outlined by Krever *et al.* (2022) and Gebhart (2017). These include total *BTaxDiff*, scaled *BTaxDiff*, discretionary *BTaxDiff*, and discretionary permanent *BTaxDiff*. Total *BTaxDiff* is calculated by deducting taxable income from profit before tax (Manzon & Plesko, 2001), while taxable income is obtained by dividing current tax expense by the statutory tax rate (Laguir *et al.*, 2015; Lanis & Richardson, 2015; Manzon & Plesko, 2001). To ensure that *BTaxDiff* is comparable across sampled companies of different sizes (Guenther *et al.*, 2014; Mills & Newberry, 2001), the total *BTaxDiff* is scaled by total assets known as scaled *BTaxDiff* (Mills & Newberry, 2001). Both the total *BTaxDiff* and scaled *BTaxDiff* capture elements of permanent and temporary differences in tax aggressiveness (Kovermann & Velte, 2021). If tax aggressiveness occurs due to tax deferral, it

causes a temporary *BTaxDiff*. In contrast, tax aggressiveness due to a strategy of permanent tax saving causes a permanent *BTaxDiff* (Kovermann & Velte, 2021).

Some studies associate *BTaxDiff* with earnings management, where opportunistic managers increase companies' financial income to reflect sound financial performances (Desai & Dharmapala, 2006, 2009; Frank *et al.*, 2009). To overcome this issue, Desai and Dharmapala (2006) developed discretionary total *BTaxDiff*, which removes the component attributable to earnings management, resulting in residuals $\varepsilon_t + \beta_0$ deduced as tax aggressiveness (Gebhart, 2017). However, there are concerns that discretionary total *BTaxDiff* is restricted to non-conforming tax aggressiveness (Hanlon & Heitzman, 2010). It does not differentiate between intentional and unintentional actions that create *BTaxDiff* (Frank *et al.*, 2009). Hence, Frank *et al.* (2009) developed discretionary permanent *BTaxDiff*, which calculates permanent differences between taxable income and financial income, to capture the ideal tax sheltering strategies. To obtain permanent total *BTaxDiff*, Frank *et al.* (2009) deduct deferred tax expenses from total *BTaxDiff* as temporary differences that are considered influenced by earnings management.

Despite potential concerns about earnings management, companies may opt to pay taxes on these earnings as a strategic move to protect their credibility in the eyes of their stakeholders. As such, the *BTaxDiff* arising from earnings management can be neutralised or rendered insignificant (Erickson *et al.*, 2004). Furthermore, each of the alternatives of *BTaxDiff* presents its own set of challenges or limitations. For instance, the discretionary total *BTaxDiff* has been criticised as restrictive to non-conforming tax aggressiveness only (Hanlon & Heitzman, 2010). Therefore, one can argue that the choice of *BTaxDiff* depends on the research questions and the tax strategies examined. The thesis is interested in capturing tax

strategies that fall within the legal range, from the least aggressive to tax aggressiveness that falls within the grey area and those that fall in the illegal spectrum, which *BTaxDiff* is espoused to do. Scaled *BTaxDiff* ensure comparability in *BTaxDiff* across the sampled companies to add credibility to the results (Kreuer *et al.*, 2022). *BTaxDiff* is said to detect both conforming and non-conforming tax aggressiveness (Gebhart, 2017; Hanlon & Heitzman, 2010) and capture both temporary and permanent differences resulting from corporate accounting and tax filing (Lisowsky *et al.*, 2013).

After considering the different versions of book-tax differences, this thesis resorted to the scaled *BTaxDiff* (thereafter *BTaxDiff*) as the main proxy for tax aggressiveness over permanent or temporary differences. Permanent differences arise in a single year as the recognition of transactions is recorded only in one book, either accounting profit or taxable income. These differences can signal the occurrence of strategic tax management, and the severity depends on the level of permanent differences (Frank *et al.*, 2009; Wilson, 2009). Temporary differences arise due to the difference in the timing of a transaction recorded in book income from that of taxable income and reflect tax aggressiveness in the form of deferral tax (Wahab & Holland, 2015). Information on profit before tax is available from company or corporate annual reports and the ASSET4 database. However, information on taxable income is not publicly available as records on tax filing are confidential in most countries, including Malaysia (Hanlon & Heitzman, 2010; IRBM, 2018).

Nevertheless, most prior studies calculate the taxable income by dividing the current tax expense by the applicable statutory tax rate (Desai & Dharmapala, 2006; Khurana & Moser, 2013; Manzon & Plesko, 2001). The information on current tax expenses is available in the financial statements as it is a requirement of the Malaysian Financial Reporting Standards

(MFRS) for companies to give a detailed breakdown of the components of their tax expenses. Therefore, this makes it possible for this thesis to use *BtaxDiff* as the proxy for tax aggressiveness. Taken together, this study uses *BTaxDiff* as a primary measure of tax aggressiveness.

The study adopts the following formula for scaled *BTaxDiff*:

$$BTaxDiff = (\text{Profit before tax} - \text{taxable income}) / \text{total assets}$$

Where: taxable income is current tax expense / statutory tax rate

Two alternative proxies for tax aggressiveness are used for the robustness tests. The first measure is the current *ETR*, calculated as the current year's income tax expense divided by profit before tax. The current *ETR* is frequently used in prior studies (e.g., Abdelfattah & Aboud, 2020; Abid & Dammak, 2021; Hoi *et al.*, 2013; Jones *et al.*, 2017; Laguir *et al.*, 2015; Lanis & Richardson, 2012; Mohanadas *et al.*, 2020; Rakia *et al.*, 2023; Wahab *et al.*, 2017). The components to calculate current *ETR* are readily available from financial statements (Gebhart, 2017). As such, the current *ETR* is a commonly used proxy in research on tax aggressiveness in Malaysia compared to the other proxies of tax aggressiveness (Mohanadas *et al.*, 2020; Noor *et al.*, 2010). Some tax authorities used *ETR* as a sign to determine whether companies are tax aggressive or not (Lanis & Richardson, 2012). In addition, the current *ETR* can measure the ability of companies to reduce their tax liabilities relative to profit before tax (Lanis & Richardson, 2012). Further, current *ETR* measures permanent and temporary tax strategies compared to GAAP *ETR*, which only measures permanent tax aggressiveness (Gebhart, 2017). According to Salihu *et al.* (2013), current *ETR* measures tax deferral strategies as companies cannot use deferred tax to offset a reduction in the current tax expense. Current *ETR* uses current-year tax expenses; it avoids the problems faced by cash *ETR*, such as late payment of

taxes or tax refunds (Krever *et al.*, 2022). Furthermore, current *ETR* is based on profit before tax (i.e., book income) as the denominator and tax for the year (i.e., taxable income) as the numerator, and therefore, there may be variations in *ETR* due to *BTaxDiff*. Hence, companies active in tax aggressive business transactions such as deferring income recognition or shifting profit through intercompany transactions with their overseas head office tend to project a lower *ETR* (Rego, 2003).

The study adopts the following formula for the current *ETR*:

$$ETR = \text{Current year tax expense} / \text{Profit before tax}$$

The *LETR* is also widely used in tax research (e.g., Chen *et al.*, 2010; Davis *et al.*, 2016; Fallan & Fallan, 2019; Huseynov & Klamm, 2012; Minnick & Noga, 2010); hence, it is adopted by this thesis as an alternative measure for tax aggressiveness. It uses the outflow of cash taxes paid, obtained from the cash flow statement, instead of income tax figures reported in financial statements such as cash *ETR*. Using cash tax paid avoids the accrual basis of accounting and encapsulates the real-time effect of tax aggressiveness (Dyreng *et al.*, 2008). In addition, the *LETR* calculates the cash paid over a specific period as its numerator and uses the same period for the profit before tax as its denominator. For instance, Davis *et al.* (2016) calculated their *LETR* over five years, whilst Fallan and Fallan (2019) used three years in their studies. The benefit of using a few years for the cash tax paid is to overcome the volatility faced by cash *ETR* due to yearly cash tax payments (Dyreng *et al.*, 2008). Averaging the cash tax paid over several years can prevent cash *ETR* from suffering a period mismatch due to late payment or overpayment in specific years (Salihu *et al.*, 2013). Further, averaging profit before tax can reduce the biases of data constriction due to companies suffering losses in specific years.

The choice of *BTaxDiff* as the main proxy over current *ETR* and *LETR* is because of the use of loss companies in the sample, and *BTaxDiff* takes into account the differences in the size of the companies.

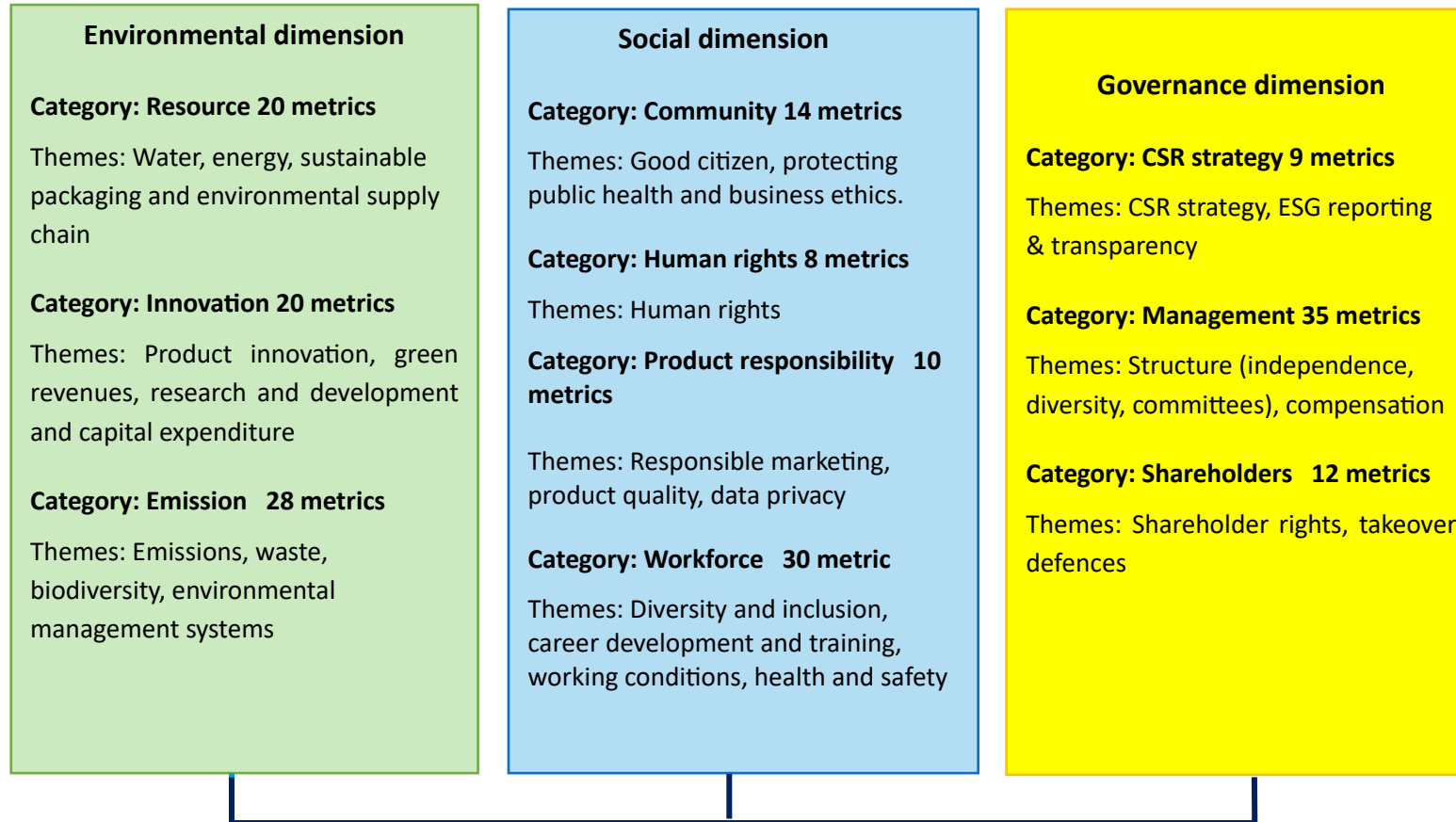
4.5 Independent Variables: CSR Performance

The overall combined CSR performance scores and scores for each dimension of CSR performance are collected from the ASSET4 website as the measures for CSR performance. ASSET4 CSR performance scores have been available for over 12,500 companies globally since its inception in 2002 (Refinitiv, 2022). ASSET4 has designed the ratings to ensure that data are measured transparently and objectively across CSR performance pillars (Thomson Reuters, 2018). ASSET4 collects over 630 company-level CSR performance measures based on information reported by individual companies in the public domain (Refinitiv, 2022). These measures are then shortlisted to obtain a subset of 186 comparable and relevant fields to assess and score individual company's CSR performance (Refinitiv, 2022). These 186 measures are grouped into ten categories across the three CSR performance pillars: environmental, social and governance. The ten categories are resource use, emission, environmental innovation, workforce, community, human rights, product responsibility, shareholders, management and strategy on CSR performance (Refinitiv, 2022). These ten categories are then segregated into themes and are weighted proportionately according to the measures within each dimension to provide the final CSR performance score that reflects the company's CSR performance (Refinitiv, 2022). For example, the management theme in the governance dimension has 35 indicators out of 186, giving management a weighting of 19% of the total CSR performance scores. Figure 4-1 shows the breakdown of the 186 metrics into individual dimensions of CSR performance.

This study uses CSR performance measures from the ASSET4 database, a leading CSR performance database widely used in CSR performance studies (Davis *et al.*, 2016; Hoi *et al.*, 2013; Lanis & Richardson, 2018; Zeng, 2016). The ASSET4 database offers a more objective view of CSR performance compared to the self-calculated CSR performance scores frequently employed in prior studies in Malaysia (e.g., Hamid *et al.*, 2018; Mohanadas *et al.*, 2020). Using ESG data from ASSET4 to measure CSR performance increased transparency as third-party providers provide more objective and comprehensive information that undergoes rigorous screening and verification and ensures consistency when interpreting the data across firms. This approach also ensures consistency when interpreting the data across different firms and is comparable with other studies (Davis *et al.*, 2016; Fourati *et al.*, 2019; Hoi *et al.*, 2013; Ortas & Gallego-Alvarez., 2020; Yoon *et al.*, 2021).

Figure 4-1

Environmental, social and governance dimensions



CSR Performance (Information obtained Refinitiv, 2022)

CombinedESG performance= CSR performance discounted by controversies.

4.5.1 CombinedESG

To further enhance the CSR performance scores, ASSET4 introduced the ESG Combined Score (*CombinedESG*), which calculates the CSR performance scores and considers the CSR performance controversies of a company as reported in global media. In total, 23 controversial topics affect the rating of the CSR performance scores. For example, some of these issues include business ethics, such as bribery, corruption, political contribution, health and safety measures, workforce diversity, infringement of shareholder rights, industrial disputes, and environmental effects on local communities and natural resources (Refinitiv, 2022). Hence, the objective of the *CombinedESG* is to discount the CSR performance score if there are reports of these controversies in the media. To ensure reliability, ASSET4 will verify these controversies and ensure that companies do not suffer from biases due to market capitalisation by adjusting the controversies scores based on the company's size. As such, *CombinedESG* provides users with a comprehensive evaluation of a company's sustainability performance and its impact on society (Thomson Reuters, 2018).

4.5.2 Environmental, Social and Governance Dimensions

The thesis also examines the relationship between the three individual dimensions of CSR performance, namely environmental, social, and governance with tax aggressiveness. The ASSET4 environmental performance measures companies' contribution to protecting the environment by avoiding strategies that can harm the environment by efficiently using natural resources, finding new and innovative ways to develop processes such as eco-friendly products and services, and reducing emissions effectively (Thomson Reuters, 2018). Hence, the environmental pillar shows the efficiency of companies' best management practices in

capitalising on environmental opportunities and avoiding environmental challenges to ensure long-term benefits for shareholders and stakeholders (Du & Li, 2023).

Social performance measures how companies' management policies handle workforce welfare, such as providing a secure workplace, fair and competitive benefits, and protecting and preserving human rights. In addition, social performance also measures how companies' policies and strategies contribute to helping the community and policies on product responsibility to ensure products are safe and of good quality and be a responsible marketer (Thomson Reuters, 2018). Further, the social pillar measures the ability of companies to instil loyalty within the community by treating its customers, society and employees well (Thomson Reuters, 2018). According to Thomson Reuters (2018), the social pillar of ESG appraises the company's reputation and license to operate.

The governance performance covers management, shareholders, and CSR performance strategy. The management category encompasses companies' commitment and effectiveness in following corporate governance principles. The shareholder category ensures fairness and equality in treating all shareholders and corporate policies on anti-takeover. The CSR strategy measures how companies encompass environmental and social dimensions in their decision-making processes and communicate them to society (Thomson Reuters, 2018). Overall, the governance pillar assesses the ability of the company's systems and processes to ensure that long-term shareholder interest is safeguarded by the actions of executives and board members (Du & Li, 2023).

This thesis's choice of using CSR performance scores from ASSET4 is supported by prior studies (e.g., Fourati *et al.*, 2019; Jarboui *et al.*, 2020; Ortas & Gallego-Alvarez, 2020) as ASSET4

is considered one of the most reputable and diligent CSR performance data providers (Fourati *et al.*, 2019).

4.6 Control Variables

Following prior studies, this thesis controls for companies' characteristics that may affect tax aggressiveness, such as size, companies' growth, profitability, capital intensity, leverage, foreign ownership, government ownership, *CEODuality*, board diversity, and board independence (Davis *et al.*, 2016; Hoi *et al.*, 2013; Kim *et al.*, 2012; Mohanadas *et al.*, 2020; Watson, 2015). The function of those control variables is to avoid problems related to uncorrelated variables (Gupta & Newberry, 1997; Laguir *et al.*, 2015; Lanis & Richardson, 2012, 2018; Rego, 2003).

Company size is measured as the natural logarithm of total assets (Iazzi *et al.*, 2023; Minnick & Noga, 2010; Mohanadas *et al.*, 2020; Yoon *et al.*, 2021). Lanis and Richardson (2015) and Wilson (2009) show that large companies are likely to engage in tax aggressiveness as they have more resources to engage in more complex tax aggressive strategies (Gupta & Newberry, 1997; Lanis & Richardson, 2015). In contrast, there have been studies that show large companies are more inclined to be CSR performance-oriented and less likely to be tax aggressive (Laguir *et al.*, 2015; Minnick & Noga, 2010; Rego, 2003) as they are more prone to public scrutiny (Zimmerman, 1983).

Growth is measured as market price deflated by its book value (Lanis & Richardson, 2015; Mohanadas *et al.*, 2020). Mohanadas *et al.* (2020) find that fast-growing companies are less likely to engage in tax aggressiveness due to the scrutiny of the public and regulators. Meanwhile, Wahab *et al.* (2017) find that fast-growing companies tend to be more tax aggressive as they have the resources to engage in aggressive tax strategies.

Profitability (*ROA*) measures net income divided by total assets. Watson (2015) shows that firms with lower current or future earnings performance engage in higher tax avoidance. The findings of Mohanadas *et al.* (2020) align with this, suggesting that profitable companies have the motivation and the resources to be tax aggressive. However, Minnick and Noga (2010) report contrasting findings suggesting that companies with higher profitability pay more taxes than their counterparts.

CapitalIntensity is another variable that can influence tax aggressiveness, measured as total net property, plant, and equipment divided by total assets. This measure captures the differential treatment of depreciation expenses for tax and financial reporting (Mohanadas *et al.*, 2020). Property, plant, and equipment generate deductible depreciation expenses; companies enjoy tax incentives that reduce their tax burden (Frank *et al.*, 2009; Gupta & Newberry, 1997). Therefore, these capital-intensified companies pay lower taxes (Lanis & Richardson, 2015; Mohanadas *et al.*, 2020).

Leverage measures long-term debts deflated by total assets, which examines the effect of debt on companies' aggressive tax strategy. Prior studies show that highly leveraged firms are prone to tax aggressiveness (Lanis & Richardson, 2015; Mohanadas *et al.*, 2020; Wahab *et al.*, 2017) because they can reduce taxes through debt financing structures (Mills *et al.*, 1998). In comparison, Graham and Tucker (2006) imply that highly leveraged firms can afford to be less tax aggressive (Abdelfattah & Aboud, 2020) as interest expense is deductible from taxable income (Chen *et al.*, 2010; Graham & Tucker, 2006).

Landry *et al.* (2013) find that ownership structure can moderate the association between CSR performance and tax aggressiveness; therefore, this thesis controls the ownership structure. Foreign ownership (*ForeignHold*) is the proportion of shares foreign

investors own in the companies' total shareholding (Haniffa & Cooke, 2005). According to Hasan *et al.* (2022), foreign investors can influence companies' stance on tax avoidance by incorporating tax governance strategies, interventions on companies' policies, and influencing corporate core values. Nonetheless, there are arguments that some MNCs operating in emerging markets have tax aggressive strategies to avoid paying taxes or paying lower taxes in these jurisdictions (Christensen & Murphy, 2004). Prior studies on the relationship between foreign holding and tax aggressiveness produce conflicting results (Hasan *et al.*, 2022; Salihu *et al.*, 2015). Therefore, foreign holding is controlled.

Government ownership (*GovHold*) provides a unique feature for the corporate structure in Malaysia (Ghazali, 2007) and is measured using the percentage of shares held by GLCs. According to Kim and Zhang (2016), politically connected companies have lower detection risk due to their connection to the government, more accessible access to information on future regulatory or enforcement changes, less societal pressure to be transparent, and lower political costs of being tax aggressive. Therefore, government-owned companies are more tax aggressive (Kim & Zhang, 2016; Wahab *et al.*, 2017). However, Fan and Chen (2023) find that innovative firms with political connections are less tax aggressive as the benefits of tax saving are lower than the cost of losing the benefits of having political connections, especially in an emerging economy.

CEODuality refers to a person who holds both the CEO and a chairperson position. Jensen (1993) suggests that the position of the CEO and chairperson should be separated so that there is an effective monitoring mechanism for the performance of top management. Further, the CEO and chairperson are two of a company's most important roles. When the same person holds two roles, he or she can easily influence the board composition (Jensen,

1993; Lin & Lui, 2009). As such, *CEODuality* can lead to corporate fraud as there are no proper checks and balances (Lin & Lui, 2009). In contrast, Minnick and Noga (2010) suggest that there is no reason for a person who holds both roles to engage in tax aggressiveness. *CEODuality* is a dummy variable that takes the value of “1” if the CEO and chairperson are the same person; otherwise, “0”.

BoardDiversity refers to the proportion of women directors over the total number of directors on the board. Board gender diversity is essential in achieving a good governance structure as women bring in different characteristics, for example, women tend to be more risk-averse, ethical, trustworthy, and more compliant with rules and regulations (Adhikari *et al.*, 2019; Lanis & Richardson, 2017). Therefore, women can contribute wisely and effectively to a transparent decision-making process (Adhikari *et al.*, 2019; Lanis & Richardson, 2017). Nevertheless, prior studies show conflicting results on the relationship between tax aggressiveness and board gender diversity (Aliani & Zarai, 2012; Jarboui *et al.*, 2020; Lanis & Richardson, 2017).

BoardIndependence refers to the proportion of independent directors divided by the total number of directors on the board (Lanis & Richardson, 2011, 2012; Mohanadas *et al.*, 2020). According to Fama and Jensen (1983) and Hu *et al.* (2009), including independent directors as members of the board of directors increases the effectiveness of monitoring the top management. Independent directors have incentives to perform a good monitoring job to enhance their reputations as experts in control and monitoring to secure new directorship roles in the future (Chen *et al.*, 2019; Fama & Jensen, 1983; Hu *et al.*, 2009). In addition, remuneration to independent directors is not dependent on the company's financial performance; hence, independent directors do not have to manipulate shareholder wealth

(Fama & Jensen, 1983). Furthermore, the presence of independent directors on the board of directors is required by the Code of Corporate Governance (Securities Commission Malaysia, 2012). Nevertheless, there are mixed findings on the relationship between tax aggressiveness and board independence. Chytis *et al.* (2020) and Minnick and Noga (2010) find that companies with more independent directors tend to participate in tax aggressiveness to improve their performance. However, Lanis and Richardson (2011, 2012) find that boards of directors with a higher proportion of independent directors are less likely to engage in tax aggressiveness.

4.7 Interaction Effect of SRG and F4GBM

This study also investigates whether the introduction of SRG and the presence of the F4GBM index affect the relationship between CSR performance and tax aggressiveness. SRG refers to the Sustainability Reporting Guide 2015, issued by Bursa Malaysia in 2015 and updated in 2018, to guide publicly listed companies in Malaysia in incorporating sustainability practices into their business operations. The guide aims to help publicly listed companies in Malaysia understand the importance of sustainability and how sustainability can help promote and strengthen companies' operations and social value (Bakry *et al.*, 2023; Bursa Malaysia, 2015, 2018). Bursa Malaysia encourages companies to use the guide to check on their sustainability performance and risk and take the necessary actions to create long-term value that meets the needs of their stakeholders and society (Bakry *et al.*, 2023; Bursa Malaysia, 2015).

Further, Bursa Malaysia anticipates that a comprehensive guide can help companies issue more informative CSR performance (Bakry *et al.*, 2023; Bursa Malaysia, 2015). Bursa Malaysia requires companies with a market capitalisation of RM2 billion (Malaysian currency) and above to issue sustainability reporting for companies with annual reports for the financial

year ending on or after 31st December 2016. In contrast, all other companies in the Main Market of Bursa Malaysia must comply with annual reports issued at the end of the financial year on or after 31st December 2017. The thesis intends to measure whether the regulatory effect of SRG through the issuance of SRG and the enforcement of SRG changes the relationship between CSR performance and tax aggressiveness. Since 2007, CSR performance has been made compulsory. However, there is no proper guide and enforcement on how and what companies need to disclose their CSR performance. As such, the study measures whether the issuance of SRG and its enforcement have a regulatory effect on CSR performance and tax aggressiveness. Nonetheless, the SRG 2015 and SRG 2018 do not include tax-related themes and tools to guide companies' tax disclosures. Although they do not directly address tax-related themes, they provide valuable insights into corporate values and behaviour through the SRG framework. This study can gain insights into the indirect impact of CSR performance on tax practices and explore how corporate transparency and ethical commitments influence financial decision-making by examining how compliance with the SRG affects tax aggressiveness (Refer to Section 6.4). As such, SRG is used as a moderating variable in this study. This thesis gives a dummy code of "1" for sampled companies that issue their sustainability reports on and after 31st December 2016 and in the following years and a dummy code of "0" otherwise. A description of the SRG 2015 and 2018 is briefly outlined in Appendix 3 p. 251.

This thesis labels the companies listed on the F4GBM Index as socially responsible. As all constituents of the F4GBM Index must meet internationally benchmarked criteria, an independent committee examines companies' socially responsible practices from publicly available information, companies' annual reports, and websites or through extensive

communication with stakeholders to ensure the accuracy of information (Bursa Malaysia, 2014). Companies are scored between 0 to 5. Companies from emerging markets such as Bursa Malaysia require a score of 2.9 to be listed in F4GBM, and below 2.5 will be delisted (Bursa Malaysia, 2023).

FTSE Russel conducts a semi-annual review on the constituent of F4GBM in June and December, and the company's CSR performance rating is assessed yearly. The CSR performance rating is updated in June or December, depending on the completion date of the company's assessment. If a company's score falls below the threshold, it is notified and given 12 months to improve its rating. If a company improves its rating to the threshold within that grace period, it retains its listing. If a company does not meet the threshold within the assessment period, the company is delisted from F4GBM (Bursa Malaysia, 2023). As for the interaction effect of F4GBM, a dummy code of "1" is given if the company is listed in F4GBM in a particular year, with the first year being 2014. For the years in which the companies are not listed in F4GBM, a dummy code of "0" is given. The table below shows the breakdown of F4GBM and non-F4GBM companies.

4.8 Model Specifications

The following regression models are developed to express the relationship between CSR performance (*CombinedESG* performance and individual dimensions of CSR performance) and tax aggressiveness:

Model 1 is developed to test hypotheses H1, H1a, H1b and H1c, which examine the relationship between CSR performance (overall CSR performance and individual dimensions) and tax aggressiveness.

Model 1:

$$BTaxDiff_{it} = \beta_0 + \beta_1 CombinedESG_{it} + \beta_2 Control\ variables_{it} + industry + year + \epsilon_{it}$$

Where: *BTaxDiff_{it}* is the book-tax difference, *CombinedESG* is the total ESG score after deducting ESG controversies. *CombinedESG* is replaced with individual CSR dimensions in H1a, H1b and H1c.

Model 1a and Model 1b are an expansion of Model 1 to include the interaction effect of SRG and F4GBM on the relationship between CSR performance and tax aggressiveness.

Model 1a tests hypotheses H2, H2a, H2b, and H2c.

Model 1a:

$$BTaxDiff_{it} = \beta_0 + \beta_1 CombinedESG_{it} + \beta_2 Control\ variables_{it} + \beta_3 SRG_{it} + \beta_4 CombinedESG_{it} * SRG_{it} + industry + year + \epsilon_{it}$$

where *CombinedESG* is replaced with individual CSR dimensions in H2a, H2b, and H2c.

Model 1b tests hypotheses H3, H3a, H3b and H3c.

Model 1b:

$$BTaxDiff_{it} = \beta_0 + \beta_1 CombinedESG_{it} + \beta_2 Control\ variables_{it} + \beta_3 F4GBM_{it} + \beta_4 CombinedESG_{it} * F4GBM_{it} + industry + year + \epsilon_{it}$$

Where *CombinedESG* is replaced by individual dimensions of CSR in H3a, H3b and H3c.

In the robustness test, *LETR* and current *ETR* replace *BTaxDiff*. Table 4.2 provides a summary of the variables used in the above models.

Table 4-2*Dependent, independent, control and moderating variables*

VARIABLES	MEASUREMENTS
Dependent Variable: Tax aggressiveness	
Book tax difference (<i>BTaxDiff</i>)	(Profit before tax – taxable income)/total assets, where taxable income is calculated as current tax expense/statutory tax rate
Long-run cash <i>ETR</i> (<i>LETR</i>)	Average cash tax paid _{it} /Average Pre-tax income _{it}
Current <i>ETR</i> (<i>ETR</i> – <i>Effective tax rate</i>)	Current year tax expense/Profit before tax
Independent Variables	
CombinedESG	CSR performance measured by CSR Combined scores
Environmental dimension	Environment dimension score
Social dimension	Social dimension score
Governance dimension	Governance dimension score
Control Variables	
Size	Firm size: natural log of total assets
Growth	Market price per share/book value per share
ROA	measured by Net income/total assets
CapitalIntensity	Capital intensity (total net property/total assets)
Leverage	Leverage (total debt/total assets)
ForeignHold	Foreign hold - Number of shares owned by foreign investors over total shares
GovHold	Government hold - Number of shares owned by government over total shares
Duality	Dummy variable: 1= if CEO serves as chairman, and 0 otherwise
BoardDiversity	Board diversity - Number of female directors on board over total number of directors on the board
BoardIndependence	Board independence - Number of independent directors over total directors on board
Moderating Variables	
Sustainability Reporting Guide (SRG)	Sustainability Reporting Guide Dummy variable: 1 for post-SRG and 0 otherwise
For Good Bursa Malaysia (F4GBM)	Companies listed as socially responsible companies under For Good Bursa Malaysia Dummy variable: 1 = F4GBM companies, and 0 otherwise

4.9 Summary

This chapter first discusses the research philosophy and methodology used to answer the research questions. It then discusses the process involved in the sample selection. Next, the chapter defines the dependent, independent and control variables used in this thesis. Lastly, the chapter defines the models to test the three hypotheses of the thesis, which examines the relationship between CSR performance and tax aggressiveness, the interaction effect of SRG and the interaction effect of F4GBM on the relationship between CSR performance and tax aggressiveness. The models are then used to examine the relationship between the individual dimensions of CSR performance and tax aggressiveness. The following chapter discusses the results and analysis of the findings.

CHAPTER 5 RESULTS AND ANALYSIS

5.1 Introduction

This chapter presents the findings and discusses the relationship between CSR performance and tax aggressiveness of Malaysian publicly listed companies based on results generated by the theoretical framework presented in Chapter 4. Section 5.2 presents the descriptive statistics, univariate analysis, and variance inflation factors for the dependent, independent, and control variables. Section 5.3 details the results of the hypotheses, followed by a comprehensive interpretation of the findings. Next, Section 5.4 reviews the effect of the issuance of SRG and the presence of the F4GBM Index on the relationship between CSR performance and tax aggressiveness. Section 5.5 shows the robustness test. Lastly, Section 5.6 summarises the chapter.

5.2 Descriptive Statistics and Univariate Results

Table 5-1 presents the descriptive statistics. The primary variable of interest, *BTaxDiff*, shows a mean value of 0.007 with a standard deviation (SD) of 0.052. This value is consistent with prior studies conducted in Malaysia (Razali *et al.*, 2022), Indonesia (Pratiwi & Siregar, 2016), China (Ying, 2015), and the United States (Armstrong *et al.*, 2012; Frank *et al.*, 2009). The standard deviation, which measures how dispersed the *BTaxDiff* is in relation to the mean, shows that the *BTaxDiff* is clustered and is close to the mean, indicating that the *BTaxDiff* of the sampled companies does not vary much. The positive mean *BTaxDiff* shows that, on average, the estimated taxable income is lower than the book income, implying the possibility of companies in Malaysia engaging in tax aggressive activities and paying lower taxes than the

Table 5-1*Descriptive statistics*

	N	Mean	Minimum	Maximum	Std. Deviation
Dependent Variables					
BTaxDiff	556	0.007	-0.418	0.231	0.052
LETR	556	0.235	-1.407	0.791	0.160
ETR	556	0.005	-58.777	2.017	2.948
Independent variables					
CombinedESG	556	0.445	0.028	0.895	0.185
Environmental	556	0.360	0.000	0.900	0.232
Social	556	0.474	0.024	0.972	0.229
Governance	556	0.487	0.018	0.987	0.214
Control variables					
Size	556	16.362	13.328	19.019	1.129
Growth	556	0.051	-0.047	1.163	0.116
ROA	556	0.085	-0.352	0.840	0.114
CapitalIntensity	556	0.374	0.010	0.852	0.204
Leverage	556	0.283	0.000	0.857	0.167
ForeignHold	556	0.144	0.000	0.768	0.169
GovHold	556	0.351	0.000	0.922	0.291
CEODuality	556	0.070	0.000	1.000	0.262
BoardDiversity	556	0.175	0.000	0.571	0.132
BoardIndependence	556	0.495	0.176	0.937	0.134

Note: See Table 4-2 for variable definitions.

prevailing statutory tax rate (Lanis & Richardson, 2015; Pratiwi & Siregar, 2019; Wahab & Holland, 2012; Zeng, 2016).

The alternative proxy for tax aggressiveness, *LETR*, shows a mean value of 0.235, with a SD of 0.160, which is below the average statutory tax rate of 0.25. The minimum and maximum values of *LETR* are -1.407 and 0.791, respectively, indicating that some companies do not pay their fair share of taxes while others pay higher than the statutory requirement. The negative value suggests that some companies are getting tax refunds from the government. The mean (SD) for the second alternative measure for tax aggressiveness, current *ETR*, is 0.005 (2.948), indicating that a very widely dispersed *ETR* and companies' stances on tax strategies differ significantly. The mean *ETR* is very much below the average statutory tax rate of 0.25. The results of *ETR* support the results of *BTaxDiff* and *LETR*. In addition, the results of lower tax rates and positive *BTaxDiff* of this study align with prior studies (e.g., Hoi *et al.*, 2013; Mohanadas *et al.*, 2020; Pratiwi & Siregar, 2016; Razali *et al.*, 2022).

Based on the findings of the three proxies for tax aggressiveness, the evidence suggests a possibility of Malaysian companies engaging in tax aggressiveness activities. However, the results can also be attributed to the companies enjoying the various tax incentives the Malaysian government offers (Salihu *et al.*, 2015; Wahab *et al.*, 2022). The higher *LETR* (maximum of 0.791) and *ETR* (maximum of 2.017) paid by some companies, as shown in Table 5-1, can be explained by some expenses not allowed as deductions in computing taxable income, such as fines and penalties, registration of trademarks, non-approved donations and employees' contributions to unapproved pensions schemes.

The study's primary independent variable, CSR performance score (*CombinedESG*), has a mean score of 0.445 with a SD of 0.185, indicating that Malaysian companies' CSR performance scores vary. Although this means the score is higher compared to previous CSR performance studies in Malaysia (Mohanadas *et al.*, 2020; Rakia *et al.*, 2023; Razali *et al.*, 2022), Indonesia (Pratiwi & Siregar, 2016) and the Philippines (Santoso *et al.*, 2021), it is still lower than the studies conducted on companies in the European Union which record a mean average score of 0.534 (Fourati *et al.*, 2019). As such, companies in Malaysia must be more proactive in their CSR performance to improve their overall CSR performance score.

As for the individual dimensions of CSR performance, the environmental dimension obtains the lowest score, with a mean of 0.360. and a minimum value of 0.000, showing that companies do not pay much attention to how their businesses' activities affect the environment. The minimum score of "0" indicates that some companies in ASSET4 do not participate in environmental performance in the initial stage of CSR performance (Thomson Reuters, 2018). The SD of the environmental dimension is 0.232, indicating a widely dispersed environmental performance among the sampled companies. The mean scores for the social and governance dimensions are 0.474 and 0.487, respectively. Likewise, the social and governance dimensions have high SD scores, which gives a widely dispersed score between the minimum and maximum scores for both dimensions. The individual dimension mean scores are lower than prior studies conducted on companies in the European Union (Fourati *et al.*, 2019) and South Korea (Yoon *et al.*, 2021), suggesting that Malaysian companies have ample room for improvements in both their overall CSR performance and individual dimensions, especially on the environmental dimension.

The overall results may stem from a potential lack of awareness among companies in Malaysia regarding the significance and benefits of integrating CSR performance into their business operations. In the early years of the introduction of CSR performance, no proper guidelines were issued to guide CSR performance. Despite the requirement for companies to disclose their CSR performance since 2008, some companies may interpret this as not necessitating active participation. This is because companies have the option to disclose “no activities” in their disclosure of CSR performances, which could lead to a perception that minimal engagement is acceptable (Abd-Mutalib, 2014; Haji, 2013). Moreover, in those early years, CSR performance in Malaysia centred on charitable activities and donations (Zulkifli & Amran, 2006). Corporate environmental performance improved in later years as companies became more aware of the importance of environmental protection through government efforts to encourage environmental performance accountability (Yusoff *et al.*, 2015). The disclosure on the dimension of governance performance has improved since the introduction of MCGG by Bursa Malaysia to ensure that companies have a robust governance mechanism to protect stakeholders. This perspective is supported by Ho and Taylor (2013), who propose that a robust governance structure can influence companies' CSR performances.

The mean score for company size measured as a log of total assets is 16.362 with a maximum size of 19.019, indicating sampled companies, on average, consist of large companies. On average, sampled companies have a growth rate of 0.051 (*Growth*). The mean score of *ROA* is 0.085, and the average *Leverage* is 0.283, implying that some companies exhibit a relatively high level of indebtedness. The capital-intensive variable shows a mean value of 0.374, indicating that, on average, net property as a proportion of total assets for the sample companies is around 37%. In addition, on average, foreign investors own 14% of

Malaysian ASSET4 company shareholdings, with a maximum shareholding of 77%. This high foreign shareholding might influence companies to pay more attention to the policies and strategies of their overseas headquarters (Salihu *et al.*, 2015) and actively participate in CSR performance (Ghazali, 2010; Haniffa & Cooke, 2005; Muttakin *et al.*, 2015). The results show that the government has a considerable stake (35.15%) in ASSET4 companies, with a maximum of 92.2%, indicating a strong political connection.

The majority of companies exhibit a separation of CEO and chairperson positions, with only 7% of companies deviating from this rule. The mean value for gender diversity on the board is 17.5%, implying, on average, 18% of board members are women. The mean score for independent directors is 49.5%, indicating that almost half the board consists of independent directors.

Table 5-2 presents the Pearson correlation matrix of variables, which is focused on the *CombinedESG* score. No significant relationship is found between the *CombinedESG* score and book-tax difference (*BTaxDiff*), the main proxy for tax aggressiveness. However, the study finds a significant positive relationship at a 1% level between *BTaxDiff* and ROA with a correlation coefficient of 0.380. In addition, the correlation coefficient between *BTaxDiff* and capital intensity is positive (0.148) and significant at the 1% level. These findings imply that companies that generate higher profit and capital-intensive companies tend to engage more in tax aggressiveness (Lanis & Richardson, 2015, 2018; Mohanadas *et al.*, 2020), as these companies have the economic resources to strategise their tax liabilities. Additionally, capital-intensive companies can be impacted by the differential treatment between tax and financial reporting on specific expenses, such as depreciation (Lanis & Richardson, 2018). Moreover, companies in Malaysia place more importance on the needs of their shareholders, such as

maximising the shareholders' wealth. However, leverage has a negative relationship with *BTaxDiff*, with a correlation coefficient of -0.179 significance at a 1% level, which is consistent with Abdelfatteh and Aboud (2020), but different from Lanis and Richardson (2015) and Mohanadas *et al.* (2020). In addition, board diversity has a negative correlation of -0.076 with *BTaxDiff* at a 10% level. This indicates that companies that have more diverse boards emphasise the needs of all stakeholders and not solely the needs of shareholders.

Further, the results show *LETR* has a negative correlation with *CombinedESG* at a 10% level, indicating that firms with better social responsibility are more likely to engage in tax aggressiveness. The results also suggest that companies in Malaysia pay more attention to the needs of their shareholders, as indicated by the shareholders' theory (Friedman, 2007). No correlation is found between the current *ETR* and *CombinedESG*.

Table 5-2

Pearson correlation matrix: CombinedESG

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. BTaxDiff	1													
2. LETR	-.160***	1												
3. ETR	0.034	0.048	1											
4. CombinedESG	-0.043	-0.073*	-0.01	1										
5. Size	-0.013	0.026	-0.038	-.106**	1									
6. Growth	0.028	0.018	0.002	.292***	-.368***	1								
7. ROA	.380***	-0.029	0.044	.133***	-.456***	.545***	1							
8. CapitalIntensity	.148***	-.228***	-.074**	0.029	.255***	0.077*	-0.048	1						
9. Leverage	-.179***	-0.034	-0.027	0.003	.313***	0.059	-.158***	.118***	1					
10. ForeignHold	0.025	0.047	0.031	.275***	-.416***	.592***	.457***	-0.046	-0.059	1				
11. GovHold	-0.047	-0.002	0.008	.167***	.323***	-.176***	-.206***	.163***	-.225***	-.357***	1			
12. CEODuality	0.036	.126***	-0.066	-.194***	.174***	-.092**	-.096**	-0.048	-0.049	0.035	-.281***	1		
13. BoardDiversity	-0.076*	.095***	-0.003	.379***	-0.065	.161***	0.002	-0.036	0.039	0.022	.201***	-.159***	1	
14. BoardIndependence	0.062	-.112***	-0.47	.283***	-0.026	-.099**	-.088**	0.077*	-.219***	-.119***	0.028	.172***	-0.032	1

Note: See Table 4-2 for variable definitions.

Note ***; **, * denote statistically significant at $p < 0.01$, $p < 0.05$ and $p < 0.1$.

Table 5-3 shows the Pearson correlation matrix for the individual dimension of CSR performance with Book tax difference (BTaxDiff). Both environmental and social performance have a negative relationship with tax aggressiveness, while governance performance is positively related to tax aggressiveness. However, the relationship is not significant.

Size is not significantly related to environmental performance and governance performance. However, it is negatively related to social performance. Both growth and capital intensity are positively associated with all three dimensions of CSR performance. This suggests that companies in the growth stage and capital-intensified companies actively participate in environmental, social, and governance performance.

Meanwhile, highly leveraged companies are negatively related to social performance and positively related to governance performance. Highly leveraged companies will not have enough funds to spend on social performance as they bear interest costs. Companies with foreign holdings have a positive relationship with the three dimensions of CSR performance, while companies with solid government holdings are positively related to social and governance performance only. Companies where the CEO and chairperson are the same person have a negative relationship with social and governance performance. This can be due to the CEO/chairperson placing more importance on shareholders' interests than stakeholders. Both board diversity and independence are positively related to environmental, social, and governance performance. A more diversified board and independent directors can provide valuable insights and awareness of the importance of engaging in environmental, social and governance performance.

Table 5-3

Pearson correlation matrix: Individual ESG

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 BTD2	1													
2 Environmental	-0.05	1												
3 Social	-0.041	.717***	1											
4 Governance	0.026	.292***	.420***	1										
5 Size	-0.013	-0.005	-.132***	-0.012	1									
6 Growth	0.028	.198***	.279***	.163***	-.368***	1								
7 ROA	.380***	.099**	.140***	0.059	-.456***	.545***	1							
8 CapitalIntensity	.148***	0.063*	0.053	0.004	.255***	0.077*	-0.048	1						
9 Leverage	-.179***	0.065	-.113***	0.078*	.313***	0.059	-.158***	.118***	1					
10 ForeignHold	0.025	.251***	.237***	.128***	-.416***	.592***	.457***	-0.046	-0.059	1				
11 GovHold	-0.047	0.025	.216***	.255***	.323***	-.176***	-.206***	.163***	-.225***	-.357***	1			
12 CEODuality	0.036	-0.036	-.155***	-.298***	.174***	-.092**	-.096**	-0.048	-0.049	0.035	-.281***	1		
13 BoardDiversity	-0.076*	.323***	.413***	.140***	-0.065	.161***	0.002	-0.036	0.039	0.022	.201***	-.159***	1	
14 BoardIndependence	0.062	.183***	.271***	.206***	-0.026	-.099**	-.088**	0.077*	-.219***	-.119***	0.028	.172***	-0.032	1

Note: See Table 4-2 for variable definitions.

Note ***, **, * denote statistically significant at p<0.01, p<0.05 and p<0.1.

Since the correlation coefficients of the variables are less than 0.8, there is a low possibility of multicollinearity being a significant issue in the empirical analyses (Mohanadas *et al.*, 2020). However, there is a possibility of moderate multicollinearity issues between the variables if the correlation coefficients for a pair of variables are between ± 0.25 and ± 0.75 (Hair *et al.*, 2014). Conversely, additional tests for detecting multicollinearity are conducted using variance inflation factors (VIF) analysis and tolerance index. VIF and tolerance indices are essential values, reflecting the estimated degree of interrelationship between an independent variable and other explanatory variables in the regression model (O'Brien, 2007). Table 5-4 presents the results of the VIF and tolerance indices. The highest variance inflation factor value and lowest tolerance index of the independent and control variables of the primary model are 3.221 and 0.31, respectively, which are less than the rule-of-thumb values of 10 and higher than 0.10. Subsequently, VIF and tolerance indices are conducted for all the regression analyses in this thesis. The test results (untabulated) have a score of below 10 and higher than 0.10, indicating no multicollinearity issues.

Table 5-4

Test for multicollinearity

Variables	Tolerance	VIF
Combined ESG	0.310	3.221
Size	0.490	2.039
Growth	0.481	2.079
ROA	0.589	1.697
CapitalIntensity	0.858	1.166
Leverage	0.628	1.592
ForeignHold	0.457	2.186
GovHold	0.450	2.222
CEODuality	0.718	1.393
BoardDiversity	0.598	1.673
BoardIndependence	0.698	1.433

5.2.1 Trend of CSR Performance of Sampled Companies

Table 5-5 shows the trend of CSR performance for the period 2008 to 2021. Table 5.6 shows the trend of the environmental dimension, Table 5-6a shows the social dimension, and Table 5-6b shows the trend of the governance dimension of CSR performance, respectively.

The trend analysis of CSR performance, shown in Table 5-5, reveals that the sampled companies initially performed poorly following the introduction of CSR performance requirements by Bursa Malaysia. In 2008, all the sampled companies scored between 0% and 49%. From 2009 to 2015, around 70% to 80% of the companies continued to score within this range. This supports the findings of Hamid *et al.* (2017, 2018) and Mohanadas *et al.* (2020), who noted that CSR performance was low and that many companies were unfamiliar with the concept of CSR. However, following the issuance of the SRG in 2015 and the introduction of regulatory oversight, CSR performance began to improve. From 2017 onwards, about half of the sampled companies scored above 50%, and by 2019, around 70% showed significant improvement in their CSR performance. This indicates that the SRG and its regulatory effect have played a key role in encouraging companies to enhance their CSR performance.

From 2008 to 2015, about 82% to 90% of the sampled companies reported scores between 0% and 49% for environmental performance. However, the environmental performance of the sampled companies began to improve in 2016 and 2017, with around 30% of the companies scoring above 50%. This indicates that companies started to recognise the importance of environmental protection and understood what stakeholders expected in terms of safeguarding the environment for the future. From 2019 onwards, more than half of the sampled companies had shown significant improvements in their environmental performance.

The same trend can be observed in the social dimension of CSR performance. In the early years following the introduction of CSR performance by Bursa Malaysia and prior to the implementation of the SRG, almost 70% to 100% of the sampled companies reported scores between 0% and 49% for social performance. However, companies began to improve their social performance starting in 2015. By 2016, more than half of the sampled companies achieved scores above 50%, with some even reaching 100% in their social performance. By 2019, more than three-quarters of the sampled companies had scored between 50% and 100% for social performance.

Meanwhile, the governance dimension of CSR performance showed a better performance in the earlier years than environmental and social performance. In 2008, about a quarter of the sampled companies scored above 50% to 100% in their governance performance. By 2012, about half of these companies had better governance performance. This can be attributed to the revision of MCGG 2012 by Bursa Malaysia, which stresses the importance of corporate governance. By 2021, about 60% of companies began to show better governance performance.

The CSR performance and the individual dimensions of CSR performance improved with SRG and the regulatory effect of SRG. This indicates that regulations and enforcement can help to motivate companies to perform better both in their CSR performance and individual dimensions of CSR performance

Table 5-5

Trend of CSR performance of sampled companies

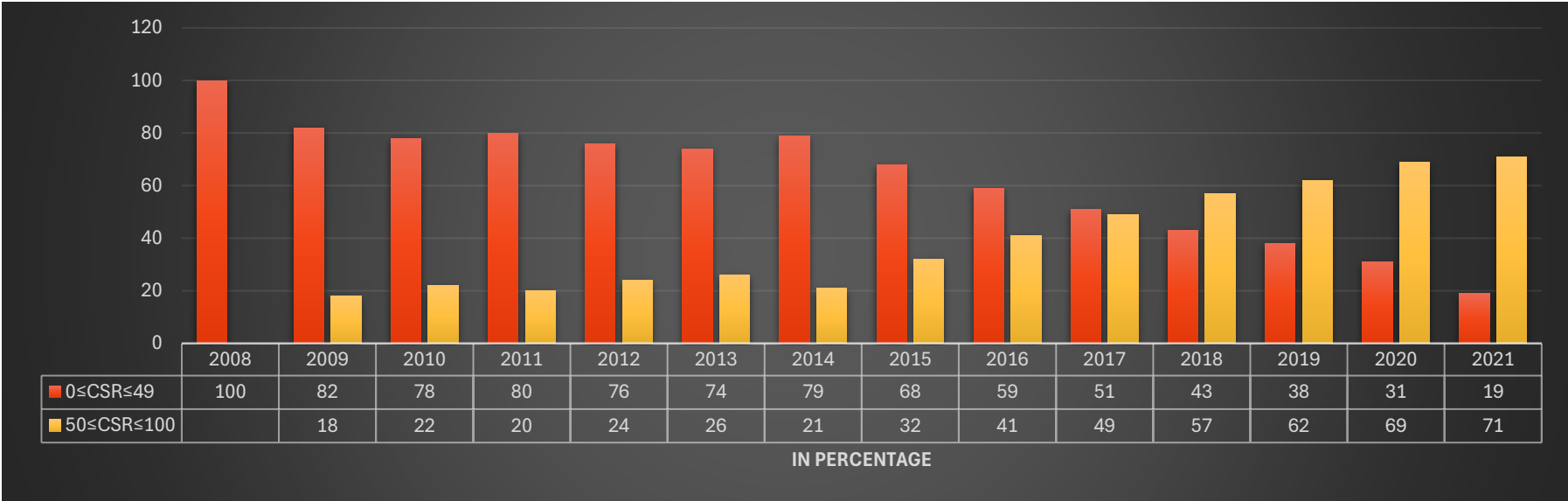


Table 5-6

Trend of the environmental dimension of CSR performance

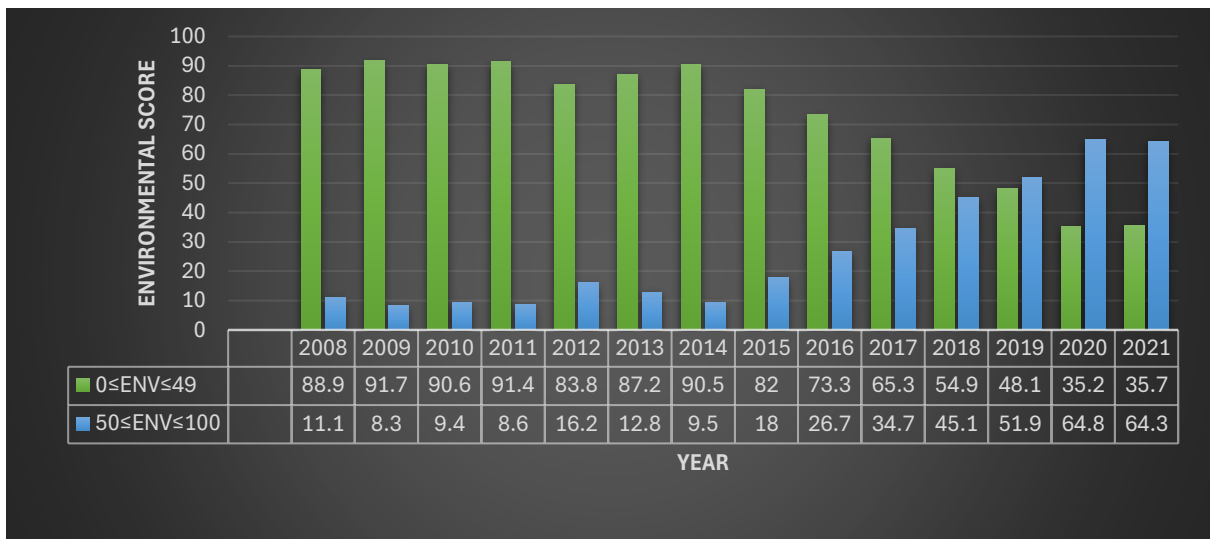


Table 5-6 a

Trend of the social dimension of CSR performance

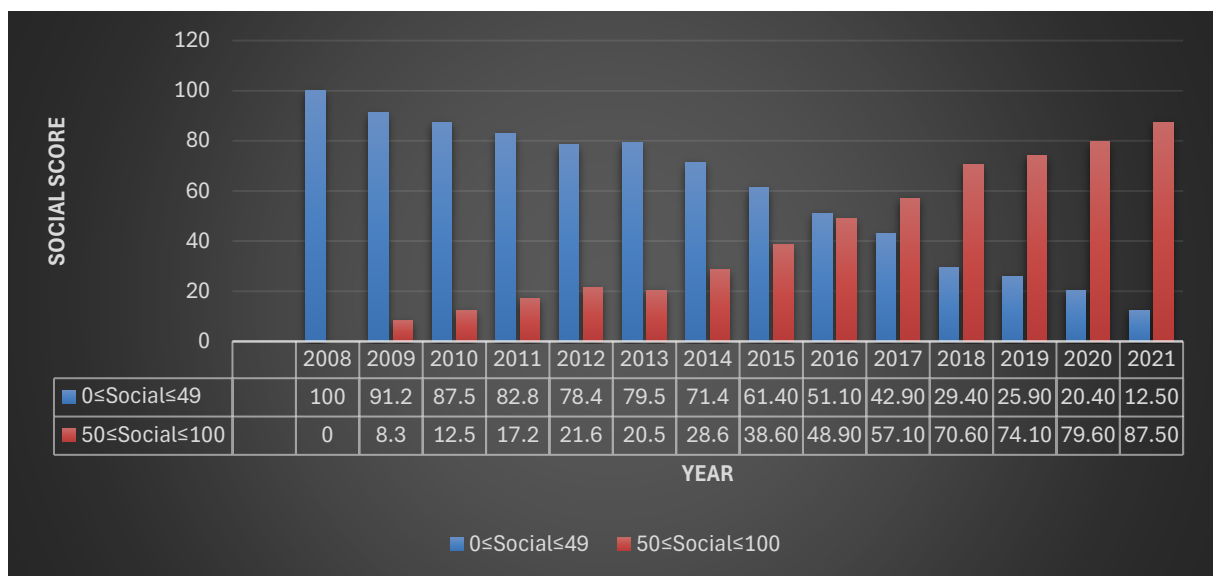
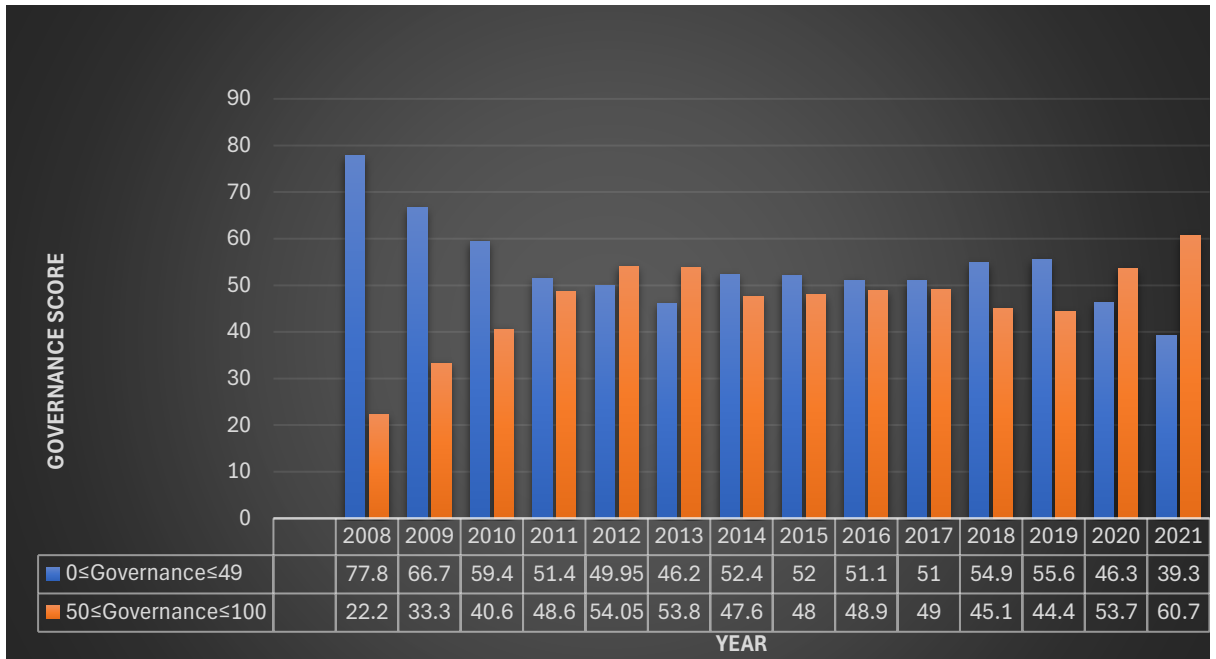


Table 5-6 b

Trend of governance dimension of CSR performance



5.3 Regression Analyses – Results and Discussions

This section reports the findings of the thesis, which investigates the relationship between CSR performance and tax aggressiveness of Malaysian companies. The section proceeds with hypothesis testing to address the following objectives outlined in Chapter 1, which are set to examine:

- (1) whether there is a relationship between CSR performance and tax aggressiveness of Malaysian companies (H1);
- (2) whether there is a relationship between the individual dimension of CSR performance and tax aggressiveness of Malaysian companies (H1a, H1b, and H1c);
- (3) whether the SRG affects the relationship between CSR performance and tax aggressiveness of Malaysian listed companies (H2, H2a, H2b and H2c); and
- (4) whether the F4GBM Index affects the relationship between CSR performance and tax aggressiveness of Malaysian listed companies (H3, H3a, H3b and H3c).

Model 1 tests the relationship between CSR performance and tax aggressiveness and the individual dimensions of CSR performance and tax aggressiveness (H1, H1a, H1b and H1c). Model 1a expands Model 1 by including SRG and the interaction term of *CombinedESG*SRG* to test H2 and its associated hypotheses on the individual dimension (H2a, H2b and H2c). To test H3, H3a, H3b and H3c, Model 1b is used where F4GBM replaces SRG and includes the interaction term *CombinedESG*F4GBM*.

5.3.1 Results of H1 and its Sub-hypotheses: CSR Performance and Tax Aggressiveness

This section presents the baseline regression results of the relationship between *CombinedESG* and tax aggressiveness, followed by the results of the individual dimension of CSR performance and tax aggressiveness. The following specification is formed to examine the relationship between CSR performance and tax aggressiveness:

$$BTaxDiff_{it} = \beta_0 + \beta_1 CombinedESG_{it} + \beta_2 Control\ variables_{it} + industry + Year + \epsilon_{it}$$

(Model 1)

Table 5-7 shows the overall regression results for H1, H1a, H1b, and H1c. Hypothesis 1 examines the relationship between CSR performance and the tax aggressiveness of companies in Malaysia. Hypotheses H1a, H1b, and H1c posit a relationship between Malaysian companies' environmental, social, and governance dimensions and tax aggressiveness, respectively.

Column (1) (H1) of Table 5-7 shows a significant positive relationship between CSR performance and tax aggressiveness (coefficient of CSR performance is 0.033, $p < 0.05$), suggesting that companies with high CSR performance are more likely to engage in tax aggressiveness, lending support for H1. Specifically, the difference between book income and taxable income for a firm increases by 0.033 when the CSR performance increases by one unit. The results suggest that the larger the *BTaxDiff*, the higher the possibility of companies being tax aggressive.

In terms of control variables, the findings indicate that *Growth* has a significant negative relationship with tax aggressiveness (coefficient of growth is -0.124, $p < 0.01$). In contrast, the return on assets proxy for profitability is positively and significantly associated

with tax aggressiveness (coefficient of *ROA* is 0.319, $p < 0.01$). CEO duality, board diversity, and board independence have a significant positive relationship with tax aggressiveness. The coefficient for CEO duality is (0.023, $p < 0.05$), board diversity is (0.038, $p < 0.10$), and board independence is (0.041, $p < 0.05$). However, size, capital intensity, leverage, foreign hold, and government holding are not significantly related to tax aggressiveness.

Table 5-7*Tax aggressiveness (BTaxDiff) and CSR performance and the individual dimension of CSR performance*

Variables	Column (1) H1		Column (2) H1a		Column (3) H1b		Column (4) H1c	
	Coefficient	t value	Coefficient	t value	Coefficient	t value	Coefficient	t value
Constant	-0.162	-2.938***	-0.156	-2.812***	-0.169	-3.045***	-0.157	-2.846***
CombinedESG	0.033	2.183**						
Environmental			0.008	0.698				
Social					0.03	2.149**		
Governance							0.023	2.248**
Size	0.005	1.468	0.005	1.502	0.005	1.516	0.005	1.448
Growth	-0.124	-4.753***	-0.119	-4.566***	-0.127	-4.843***	-0.121	-4.652***
ROA	0.319	11.938***	0.322	11.953***	0.321	12.02***	0.322	12.071***
CapitalIntensity	0.013	0.763	0.02	1.119	0.012	0.681	0.022	1.336
Leverage	-0.019	-1.085	-0.023	-1.35	-0.011	-0.629	-0.027	-1.561
ForeignHold	0.021	0.865	0.027	1.099	0.021	0.875	0.025	1.061
GovHold	-0.008	-0.699	-0.003	-0.255	-0.01	-0.818	-0.008	-0.644
CEODuality	0.023	2.129**	0.02	1.862*	0.022	2.074**	0.023	2.183*
BoardDiversity	0.038	1.942*	0.036	1.811*	0.04	2.028**	0.035	1.77**
BoardIndependence	0.041	2.176**	0.049	2.635***	0.047	2.536**	0.041	2.184**
Year dummies	Yes		Yes		Yes		Yes	
Industries dummies	Yes		Yes		Yes		Yes	
Adjusted R squared	0.464		0.46		0.464		0.464	
F-statistics	9.742***		9.583***		9.737***		9.753***	
Durbin Watson	1.428		1.421		1.426		1.428	

Variable definition – Refer to Table 4-2

Note ***, **, * denote statistically significant at $p < 0.01$, $p < 0.05$ and $p < 0.1$

H1a examines the relationship between the environmental dimension of CSR performance and tax aggressiveness. The result reported in Column (2) of Table 5-7 shows a non-significant relationship between environmental performance and tax aggressiveness; thus, H1a is rejected. H1b posits that there is a relationship between the social dimension of CSR performance and tax aggressiveness. The finding of H1b in Column (3) of Table 5-7 shows a significant positive relationship between the social dimension of CSR performance and tax aggressiveness (coefficient is 0.03, $p < 0.05$), thus supporting this hypothesis. The results imply that companies that participate actively in social performance also engage in aggressive tax strategies. In other words, as companies participate in more social activities, they are more likely to indulge in aggressive tax strategies to minimise their tax payments. Hypothesis H1c examines the relationship between the governance dimension of CSR performance and tax aggressiveness, and the findings in Column (4) of Table 5-7 show a positive and significant association between the governance dimension of CSR performance and tax aggressiveness (coefficient is 0.023, $p < 0.05$). The result alludes to companies with strong governance mechanisms are also engaging in tax aggressiveness.

The F test shows that the overall regression model is statistically significant at a 1% level. In H1, the adjusted R^2 is 0.464, which indicates that the explanatory variables tested jointly explain about 46.4% of the variance in the dependent variable. In H1a, H1b and H1c, the adjusted R^2 is 0.46, 0.464 and 0.464 respectively. The R-squared of the three models is consistent among themselves and that of prior studies (e.g., Hoi *et al.*, 2013; Yoon *et al.*, 2021).

This thesis also conducts the Durbin-Watson test to test for autocorrelation. Autocorrelation happens when the error terms of the regression model are not independent. Durbin-Watson statistic ranges from 0 to 4 (SAP, n.d.). The acceptable range of the Durbin-

Watson score is between 1.5 to 2.50 (SAP, n.d.). The Durbin-Watson scores are 1.428, 1.421, 1.426, and 1.428 for H1, H1a, H1b and H1c, all of which are very close to the acceptable range.

5.3.2 Interpretation of Results

5.3.2.1 Overall CSR Performance and Tax Aggressiveness (H1)

Hypothesis 1 posits there is a relationship between CSR performance and the tax aggressiveness of companies in Malaysia. The thesis result shows a positive relationship suggesting that the higher the level of CSR performance, the higher the likelihood of companies engaging in tax aggressiveness, which concurs with a prior Malaysian study by Razali *et al.* (2022). The results are consistent with other earlier studies (e.g., Col & Patel, 2019; Davis *et al.*, 2016; Fourati *et al.*, 2019; Lanis & Richardson, 2013; Watson *et al.*, 2015; Xu *et al.*, 2022) but differ from Rakia *et al.* (2023) study on Malaysian companies and studies on other countries (e.g., Hoi *et al.*, 2013; Jarboui *et al.*, 2022; Lanis & Richardson, 2012, 2015, 2018; Lin *et al.*, 2017; Lopez & Gonzales, 2019; Muller & Kolk, 2015), which finds a negative relationship.

The results of the current study align with the shareholder theory, suggesting that Malaysian firms prioritise the maximisation of benefits for shareholders. This perspective implies that these Malaysian companies may perceive tax payments and CSR performance as substitutes, giving rise to a situation where they intensify their efforts on CSR performance while concurrently reducing tax payments. The underlying belief is that the maximisation of shareholder wealth ultimately contributes to the well-being of society. Beneath this foundational belief lies the notion that Malaysian companies may consider themselves more effective than the government in resource allocation. From this perspective, managers of socially responsible firms may not view corporate tax payments as the most effective means to fulfil their social responsibility goal. The belief is that by directly engaging in investment,

innovation, and job creation, these firms can make a more direct and impactful contribution to societal well-being. In this instance, company management believes they can efficiently use their tax savings for their business operations, such as hiring more workers, buying new assets, or expanding their business operations. This strategic allocation of resources is perceived as a means to benefit society, as demonstrated by Davis *et al.* (2016), thus showcasing a commitment to be socially responsible.

Moreover, companies with a strong CSR performance focus encounter dual pressure. On one hand, they face high expectations from stakeholders, including investors, employees, customers, and the community. Fulfilling these expectations demands substantial financial resources, potentially causing financial constraints for some companies. Specifically, companies with low current or anticipated future earnings are less inclined to pay more taxes than the letter of the law due to resource constraints (Watson, 2015). In line with this, Arif and Hashim's (2014) study on Malaysian companies demonstrates that market value tends to increase with tax aggressiveness, suggesting that the adoption of tax aggressive strategies may be perceived positively by the market, potentially influencing company valuation.

On the other hand, company management experiences pressure from shareholders to generate higher corporate profits, particularly when management compensation is tied to the profitability of the company. Prior studies provide evidence that management is likely to engage in tax aggressiveness strategies if their compensation is conditional on the firm's profitability (Armstrong *et al.*, 2015). Razali *et al.* (2019) find that cash incentives to directors incentivise them to engage in tax aggressiveness in Malaysian firms. This pressure compels managers to explore various avenues to reduce costs. Corporate tax represents a significant operational cost, prompting managers to seek ways to minimise tax payments through legal

means (Fallan & Fallan, 2019). This approach is not about underpaying taxes but rather adhering strictly to tax law requirements (Erle, 2008). The dual challenges of meeting high CSR performance expectations while managing financial constraints and simultaneously responding to shareholder demands for increased profits create a context where tax aggressiveness becomes an attractive strategy for balancing these competing priorities.

Additionally, some Malaysian companies may perceive the tax environment in Malaysia as complex due to the provisions in the tax laws. The Malaysian government has various tax incentives to attract local and foreign investors. In navigating these tax regulations, there is a possibility that company managers may adopt tax aggressive strategies or leverage loopholes in the taxation system. Their aim is to understand tax rules thoroughly and avail themselves of as many tax incentives as possible to minimise their tax payments (e.g., Hamid *et al.*, 2018; Hamzah *et al.*, 2021; Razali *et al.*, 2022). For example, companies may strategically utilise the tax incentives provided by the government, deeming such actions as legal and well within their corporate rights, as affirmed by court decisions. The High Court of Malaysia has ruled that companies possess the freedom to structure business transactions to optimise their tax advantage as long as it aligns with the arrangements established by the government for providing tax incentives (Naban & Kumar, 2016). This legal framework may encourage companies to engage in practices that align with existing tax regulations while taking advantage of available incentives to manage their tax liabilities effectively.

Another point of contention lies in how Malaysian companies view their tax obligations and CSR performance commitments to society. It can be inferred that Malaysian companies may hold distinctive views regarding their legal obligations in paying taxes and their ethical commitments to CSR performance. Some companies may opine that as long as they fulfil their

obligations in paying the right amount of taxes without violating the letter of the law, they have discharged their duties as corporate citizens (Davis *et al.*, 2016; Dowling, 2014; Naban & Kumar, 2016). Moreover, since tax aggressiveness can be legal, these companies may argue that they have not engaged in anything illegal, such as tax evasion, therefore, by adhering to legal requirements does not mean that they are being unethical or immoral (Hasseldine & Morris, 2013; Scarpa & Signori, 2020). Additionally, companies might feel that the moral values of others should not prevent them from exploiting tax loopholes to reduce their tax payments or force them to pay higher taxes than their legal tax liabilities, as they are not obligated to look further than the actual legislation (Hasseldine & Morris, 2013; Naban & Kumar, 2016; Scarpa & Signori, 2020).

Further, managers might feel that by paying higher taxes than the law requires, they are transferring what belongs to shareholders to the other stakeholders, thus causing them to behave in an unethical manner to their shareholders (McGee, 2010, as cited in Scarpa & Signori, 2020). Nevertheless, these socially responsible company management are still committed to their ethical responsibility of participating in CSR performance, as they consider tax payment and CSR performance to be separate activities (Wahab *et al.*, 2022). Consequently, their strategies on tax liabilities do not hamper or prevent them from their commitment to CSR performance. These companies continue their programs on CSR performance as planned in their business strategies, using the funds and resources to show that they are ethically committed to CSR performance.

5.3.2.2 Individual Dimensions of CSR Performance and Tax Aggressiveness (H1a, H1b and H1c)

As for the results for the individual dimension of CSR performance, H1a has an insignificant relationship between environmental performance and tax aggressiveness. The result concurs

with Hamid *et al.* (2018), Laguir *et al.* (2015), Landry *et al.* (2013), Lanis and Richardson (2012, 2015), Mohanadas *et al.* (2020), Montenegro (2021) and Yoon *et al.* (2021) (study on family-owned firms). The result implies that the decision to indulge in tax aggressiveness and participation or investment in environmental protection are taken separately (Wahab *et al.*, 2022).

This insignificant result may be attributed to the multifaceted initiatives introduced by the Malaysian government, which actively encourage firms to engage in environmental conservation. These initiatives include the Forest Enactment Act of 1935, the Land Conservation Act of 1960, the Environmental Quality Act of 1975, the National Policy on Environment 2002, The Green Book and The Silver Book 2006, National Policy on Climate Change 2009, Green Technology Policy, 2009 and Tenth Malaysia Plan, and the SRG 2015 and 2018. The government's proactive measures, including incentives to reduce carbon emissions, promote green technology, and offer tax deductions for environmental protection, ensure that companies are well-informed about their responsibilities and the requisite information to furnish for environmental conservation. Specific tax incentives, such as Income Tax Exemption for green technology projects/services, solar leasing, and green technology assets (PwC, 2023), further highlight the government's commitment to environmental initiatives.

Firms with higher CSR performance may leverage available incentives while complying with legal obligations. Their active participation in environmental campaigns and protection serves as a testament to their ongoing ethical commitment to social responsibility. The alignment of environmental projects with tax incentives allows socially responsible companies to optimise their tax strategies. However, it is crucial to note that certain environmental practices, such as reducing water, energy, or paper consumption, may not necessarily have

direct linkages with tax strategies¹⁴. In these instances, the absence of a discernible relationship between the environmental dimension and tax aggressiveness arises, as both decisions are made independently to maximise shareholder wealth, in accordance with studies by Davis *et al.* (2016), Landry *et al.* (2013), and Wahab *et al.* (2022).

A positive relationship between the social dimension of CSR performance and tax aggressiveness (H1b) indicates that Malaysian companies actively participating in the social dimension of CSR performance are tax aggressive. This result concurs with the findings of Col and Patel (2019), Davis *et al.* (2016), Fourati *et al.* (2019), Preuss (2010) and Sikka (2010) but contradict the findings reported by Laguir *et al.* (2015), Lanis and Richardson (2012) and Yoon *et al.* (2021). The result suggests that Malaysian companies may view the social dimension of CSR performance and tax payments as substitutes, viewing tax savings as a means to foster innovation, create job opportunities, invest in a better workplace, and contribute to the community, for example, provide philanthropic services such as financial assistance to students and undergraduates, donations to communities (Huseynov & Klamm, 2012) — all of which fall within the ambit of the social dimension, and showing their commitment to the society. By integrating these activities, companies demonstrate their dedication to societal well-being and their role as responsible corporate citizens. Companies may feel that paying more taxes than legally required would divert funds that could otherwise be allocated to finance their social services. This perspective indicates a potential strategic alignment where companies consider tax savings as a resource to fulfil their commitment to social responsibility.

¹⁴ Certain environmental strategies, such as not printing papers unnecessarily, saving electricity or water, and zero waste, will have no direct linkages with tax strategies. However, these are still considered environmental practices.

Moreover, philanthropic activities affect tax expenses and tax payments in Malaysia. Approved donations to charitable organisations or scholarships for students are allowed as a deduction to arrive at taxable income. Some companies strategically engage in philanthropic activities to get a deduction, thereby paying less tax. In doing so, companies demonstrate their commitment to being good corporate citizens by aiding those in need and fulfilling the social performance aspect of CSR performance. Simultaneously, they ensure that they are meeting their legal obligations by paying the right amount of taxes. Therefore, the result suggests that the minimisation of taxes by socially responsible companies benefits both their shareholders and society (Davis *et al.*, 2016; Huseynov & Klamm, 2012). The additional funds resulting from tax savings serve a dual purpose. On one hand, they are redirected towards societal needs, such as donations, while on the other hand, this signifies that socially responsible companies are not only ethically committed to the well-being of society but also actively engage in socially responsible practices.

H1c posits that a relationship exists between the governance dimension of CSR performance and tax aggressiveness. The result for H1c shows a significant positive relationship between the governance dimension of CSR performance and tax aggressiveness, consistent with prior research (e.g., Fourati *et al.*, 2019; Huseynov & Klamm, 2012; Yoon *et al.*, 2021), but contradicts the results of the Malaysian study conducted by Hamid *et al.* (2017) and the study by Ortas and Gallego-Alvarez (2020), both of which report a significant negative result. The results indicate that companies with strong corporate governance are more likely to engage in tax aggressiveness. A plausible reason can be that companies with sound corporate governance might not face as much scrutiny from regulators compared to companies with weaker corporate governance. As such, managers of these companies might

seize the opportunity to engage in a tax aggressive strategy, highlighting how corporate governance practices can influence managerial decisions regarding tax strategies. The findings also suggest that Malaysian companies do not necessarily view tax as an integral component of CSR performance. Instead, there appears to be a perception that governance and CSR performance can function as substitutes. This perspective implies a nuanced approach wherein companies may prioritise governance practices over direct financial contributions through taxes when fulfilling their broader social responsibility commitments.

5.3.3 The Effect of Issuance of SRG on CSR Performance-Tax Aggressiveness Relationship (H2, H2a, H2b, and H2c)

This section reports the results of hypotheses H2, H2a, H2b and H2c. These hypotheses examine whether the issuance of SRG affects the relationship between combined CSR performance and its individual dimensions' performance and tax aggressiveness. As indicated in section 1.2, the first edition of the SRG was issued in 2015, followed by the second edition in 2018 by Bursa Malaysia to guide listed companies in understanding and incorporating sustainability in their daily business operations. The issuance of SRG helps companies promote, incorporate, and strengthen long-term social values in their business operations to benefit stakeholders and society. It also helps companies issue comprehensive and informative disclosures on CSR performance (Bursa Malaysia, 2015, 2018).

Table 5-8 presents the results of H2, H2a, H2b, and H2c. H2 posits that SRG affects the relationship between CSR performance and tax aggressiveness. The results in Column (1) show that SRG does not influence the relationship between *CombinedESG*SRG* and tax aggressiveness (coefficient = -0.013, $p > 0.1$); therefore, H2 is rejected. The result of H2a shows that SRG positively influences the relationship between the environmental dimension of CSR

performance and tax aggressiveness. The coefficient of Environment*SRG is 0.046 with a $p < 0.05$. This positive influence indicates that SRG moderates the negative relationship between the environmental dimension of CSR performance and tax aggressiveness (coefficient = -0.029, $p < 0.10$). The relationship between the environmental dimension of CSR performance and tax aggressiveness shifts from insignificant to negative in H1a when the SRG effect is included as a moderating variable. However, the relationship is only significant at the 10% level. Therefore, hypothesis H2a, which posits that SRG affects the relationship between the environmental dimension of CSR performance and tax aggressiveness, is accepted. As for the effect of SRG on the relationship between the social dimension of CSR performance and tax aggressiveness, the results show a non-significant result for Social*SRG, indicating that SRG has no effect on the relationship between the social dimension of CSR performance and tax aggressiveness. Thus, hypothesis H2b is rejected. The interaction result of Governance*SRG shows a negative coefficient and p-value of -0.029 ($p < 0.1$), supporting H2c, which posits that the interaction of SRG affects the relationship between the governance dimension of CSR performance and tax aggressiveness. The result indicates that the issuance of SRG mitigates the positive relationship between the governance dimension of CSR performance and tax aggressiveness (coefficient of governance = 0.037, $p < 0.01$).

Table 5-8

The effect of SRG on the relationship between tax aggressiveness and CSR performance and individual dimensions of CSR performance

Variables	Column (1) H2		Column (2) H2a		Column (3) H2b		Column (4) H2c	
	Coefficient	t value	Coefficient	t value	Coefficient	t value	Coefficient	t value
Constant	-0.138	-2.741***	-0.144	-2.862***	-0.14	-2.791***	-0.144	-2.858***
CombinedESG	0.024	1.349						
Environmental			-0.029	-1.899*				
Social					0.017	1.142		
Governance							0.037	2.719***
SRG	-0.006	-0.602	-0.022	-2.989***	-0.008	-0.853	0.005	0.562
CombinedESG*SRG	-0.013	-0.572						
Environmental*SRG			0.046	2.507**				
Social*SRG					-0.008	-0.457		
Governance*SRG							-0.029	-1.722*
Size	0.005	1.51	0.006	1.881	0.005	1.545	0.005	1.549
Growth	-0.118	-4.559***	-0.109	-4.273***	-0.118	-4.561***	-0.115	-4.522***
ROA	0.313	11.976***	0.318	12.217***	0.314	12.018***	0.313	12.065***
CapitalIntensity	0.016	0.909	0.027	1.588	0.016	0.943	0.017	1.009
Leverage	-0.029	-1.689*	-0.036	-2.128**	-0.027	-1.517	-0.032	-1.904*
ForeignHold	0.035	1.448	0.032	1.347	0.035	1.464	0.039	1.644
GovHold	-0.003	-0.284	-0.002	-0.201	-0.004	-0.311	-0.003	-0.23
CEODuality	0.021	2.059**	0.017	1.695*	0.021	2.009*	0.023	2.249**
BoardDiversity	0.018	0.956	0.015	0.837	0.018	0.96	0.019	1.034
BoardIndependence	0.03	1.58	0.028	1.55	0.033	1.79	0.025	1.404
Year dummies	No		No		No		No	
Industries dummies	Yes		Yes		Yes		Yes	
Adjusted R squared	0.459		0.464		0.469		0.465	
F-statistics	11.700***		11.899***		11.674***		11.948***	
Durbin Watson	1.433		1.428		1.427		1.449	

Variable definition – Refer to Table 4-2. Note ***, **, *denote statistically significant at $p < 0.01$, $p < 0.05$ and $p < 0.1$.

5.3.4 Discussion of Results: Effect of SRG on CSR Performance-Tax Aggressiveness Relationship (H2, H2a, H2b, and H2c)

The results show that the issuance of SRG does not impact the relationship between the CSR performance (H2) and tax aggressiveness and the social dimension of CSR performance (H2b) and tax aggressiveness of sampled companies. In other words, the presence of SRG does not seem to influence or alter how tax aggressiveness correlates with CSR performance by Malaysian companies, particularly in the context of the social dimension of CSR performance. A possible reason contributing to the lack of impact of SRG on the CSR performance and tax aggressiveness relationship is that SRG may not be effectively integrated into corporate practices. In other words, the SRG guidelines may not be systematically woven into the fabric of a company's operations, decision-making processes, or strategic planning. This limited integration could arise from various factors, including a lack of awareness or understanding among corporate stakeholders regarding the implications of the two SRGs on tax strategies. It may also stem from a perception that these guidelines are primarily focused on environmental and social aspects rather than encompassing considerations related to tax planning and financial reporting. The absence of tax-related themes and tools in the themes and toolkit of SRG 2015 and 2018 indicates a logical explanation for the obvious lack of immediate impact on the relationship between CSR performance and tax aggressiveness.

Moreover, considering that the SRG was initially issued in 2015, the relatively short duration since its introduction underscores that companies might still be in the process of familiarising themselves with the guidelines and comprehending their broader implications. It is reasonable to expect a time lag in the adoption and adaptation of the SRG, and this time lag is not indicative of resistance but rather reflects the practical challenges involved in

restructuring tax strategies to conform to individual dimensions of CSR performance. Therefore, during the study period, SRG did not exert an effect on the relationship between CSR performance and tax aggressiveness.

The results show that SRG affects the relationship between the environmental (H2a) and the governance dimensions of CSR performance (H2c) with tax aggressiveness. H2a shows that SRG moderates the negative relationship between the environmental dimension of CSR performance and tax aggressiveness. In this context, the SRG may alter the strength of the negative association between firm environmental performance and tax aggressiveness, potentially indicating that companies adopting SRG exhibit a less pronounced negative correlation between their environmental performance and tax aggressiveness. Firms adopting SRG may prioritise allocating resources to sustain and enhance their environmental initiatives. However, these companies might face resource constraints, and engaging in tax aggressiveness could be seen as a strategic way to free up additional funds for further investment in environmentally friendly practices. By minimising tax payments, these firms can redirect funds toward ongoing sustainability efforts. Further, the Malaysian government offers many incentives or deductions for companies involved in specific environmentally friendly activities (see Section 5.3.2.2). Firms with good environmental performance may strategically leverage these tax incentives to minimise their tax liabilities while continuing to invest in sustainability. In such cases, tax aggressiveness aligns with both financial optimisation and adherence to environmental goals.

The interaction term Governance*SRG shows that the issuance of SRG affects the relationship between the governance dimension of CSR performance and tax aggressiveness, thus supporting H2c. The result indicates that the issuance of SRG mitigates the positive

relationship between the governance dimension of CSR performance and tax aggressiveness. The SRG stresses the importance of the governance structure a company "has in place to ensure accountability, oversight, and review in the identification and management of sustainability matters" (Bursa Malaysia, 2015, p.37). Adopting SRG signals a commitment to transparency and sustainable practices. Stakeholders, including investors and consumers, have heightened expectations regarding ethical conduct and responsible financial practices. Firms adopting SRG may adjust their tax strategies to align with these expectations, leading to a less aggressive approach. In addition, firms adopting SRG may feel compelled to be more transparent about their tax strategies. This transparency can act as a deterrent for engaging in aggressive tax practices, especially if stakeholders perceive these practices negatively.

5.3.5 Effect of F4GBM Index on CSR Performance-Tax Aggressiveness Relationship (H3, H3a, H3b, and H3c)

This section discusses whether the presence of the F4GBM Index, which gives companies a sense of being reputable, has an effect on the relationship between CSR performance and the individual dimensions of CSR performance and tax aggressiveness. Since its inception in 2014, the number of constituents has increased from 24 constituents to 109 in December 2023 (Bursa Malaysia, 2023). As mentioned earlier in the thesis (see Section 1.3.2), the companies in this Index are required to comply with internationally benchmarked criteria for their environmental conservation, social initiatives, and good governance practises (FTSE Russell, 2020). Accordingly, this thesis conducts an analysis to ascertain whether being in the F4GBM Index affects the relationship between the CSR performance of Malaysian companies and tax aggressiveness. It hopes to bridge the gap in the literature, as this aspect is yet to be studied in the Malaysian context.

Table 5-9 presents the results of the effect of the F4GBM Index on the relationship between CSR performance (i.e., overall and individual dimensions of CSR performance) and tax aggressiveness of listed companies in Malaysia. The result in Column (1) shows a significant negative result with a coefficient and p-value of (-0.044, $p < 0.1$) for *CombinedESG*F4GBM* and a significant positive relationship between CSR performance and tax aggressiveness. The result indicates that being in F4GBM weakens the positive relationship between tax aggressiveness and CSR performance compared to non-F4GBM firms, thus lending support for H3. In addition, this study examines the presence of the F4GBM index on the relationship between individual dimensions of CSR performance and tax aggressiveness (H3a, H3b and H3c). The finding reported on the environmental dimension of CSR performance and tax aggressiveness in Column (2) shows a non-significant relationship, indicating that being in F4GBM does not affect the relationship between the environmental dimension of CSR performance and tax aggressiveness. Therefore, hypothesis H3a is rejected.

H3b proposes that the presence of the F4GBM index affects the relationship between the social dimension of CSR performance and tax aggressiveness. The result for H3b is reported in Column (3), which shows a significant negative result (coefficient of the interaction term *Social*F4GBM* is -0.035, $p < 0.1$), supporting H3b. The relationship between the social dimension of CSR performance and tax aggressiveness shows a significant positive relationship. This result indicates that the F4GBM index can mitigate the positive relationship between the social dimension of CSR performance and tax aggressiveness. Thus, being one of the constituents of F4GBM, which enhances a company's reputation, can help reduce a company's tax aggressiveness.

H3c posits that the presence of the F4GBM index affects the relationship between the governance dimension of CSR performance and tax aggressiveness. The result for H3c is presented in Column (4), which shows an insignificant coefficient of the interaction term, Governance*F4GBM, indicating that the presence of F4GBM does not have an impact on the relationship between the governance dimension of CSR performance and tax aggressiveness. Therefore, hypothesis H3c is rejected.

Table 5-9

Interaction effect of F4GBM on the relationship between CSR performance and tax aggressiveness and the individual dimension of CSR performance

Variables	Column (1) H3		Column (2) H3a		Column (3) H3b		Column (4) H3c	
	Coefficient	t value	Coefficient	t value	Coefficient	t value	Coefficient	t value
Constant	-0.164	-2.982	-0.155	-2.804***	-0.171	-3.097***	-0.158	-2.859***
CombinedESG	0.048	2.608***						
Environmental			0.014	0.893				
Social					0.04	2.539**		
Governance							0.027	1.914*
F4GBM	0.032	2.359**	0.018	1.808*	0.029	2.427**	0.01	1.398
CombinedESG*F4GBM	-0.044	-1.783*						
Environmental*F4GBM			-0.017	-0.882				
Social*F4GBM					-0.035	-1.803*		
Governance*F4GBM							-0.01	-0.516
Size	0.004	1.224	0.004	1.256	0.004	1.335	0.004	1.252
Growth	-0.121	-4.68***	-0.119	-4.56***	-0.123	-4.706***	-0.12	-4.615***
ROA	0.326	12.179***	0.328	12.092**	0.325	12.203***	0.325	12.167***
CapitalIntensity	0.014	0.808	0.02	1.148	0.014	0.829	0.022	1.296
Leverage	-0.018	-1.036	-0.02	-1.164	-0.014	-0.776	-0.024	-1.372
ForeignHold	0.011	0.441	0.021	0.856	0.011	0.461	0.022	0.916
GovHold	-0.01	-0.818	-0.004	-0.366	-0.012	-0.957	-0.008	-0.642
CEODuality	0.024	2.275**	0.021	1.958*	0.023	2.144**	0.025	2.324**
BoardDiversity	0.045	2.246**	0.037	1.897	0.045	2.289**	0.037	1.855*
BoardIndependence	0.041	2.188**	0.048	2.603	0.047	2.546**	0.04	2.098**
Year dummies	Yes		0.014	0.893	0.04	2.539	Yes	
Industries dummies	Yes		Yes		Yes		Yes	
Adjusted R squared	0.469		0.462		0.465		0.467	
F-statistics	9.596***		9.377***		9.467***		9.515***	
Durbin Watson	1.432		1.419		1.426		1.436	

Variable definition – Refer to Table 4-2. Note ***, **, * denote statistically significant at $p < 0.01$, $p < 0.05$ and $p < 0.1$

5.3.6 Interpretation of the Effect of F4GBM Index on CSR Performance-Tax Aggressiveness Relationship (H3, H3a, H3b, and H3c)

H3 and H3b results show that socially responsible companies in Malaysia are indulging in tax aggressiveness and actively participating in CSR performance, particularly the social dimension of CSR performance; however, this positive relationship is moderated by the reputation effect of the F4GBM Index. These results underscore the significance of being part of the F4GBM Index, which emphasises sustainability practices. Companies within this index recognise the pivotal role of maintaining strong relationships with stakeholders for sustained business success. To remain listed in the F4GBM Index, companies are compelled to exhibit social responsibility and ethical decision-making, prioritising good CSR performance. The index places considerable emphasis on companies actively participating in activities that enhance the welfare of all stakeholders. Consequently, it signals to companies the importance of incorporating the interests of various stakeholders into their corporate strategies, showcasing a genuine concern beyond shareholders.

Stakeholders, including investors, customers, and employees, expect socially responsible companies to uphold transparency and responsible financial practices. This expectation is particularly heightened for firms listed in the F4GBM Index, making them more conscientious about meeting these standards. As a result, they tend to steer clear of practices that might be perceived as aggressive tax avoidance, aligning with the broader principles of responsible and transparent business conduct.

Furthermore, companies with a strong emphasis on CSR performance and social performance inherently prioritise ethical business practices. Tax aggressiveness, involving the exploitation of legal loopholes or engaging in aggressive tax planning, can be viewed as

conflicting with the ethical standards upheld by socially responsible firms. This ethical dilemma is particularly pertinent for F4GBM firms, as they recognise the paramount importance of minimising reputational risks associated with any unethical practices. Therefore, the F4GBM Index serves as a catalyst for this heightened awareness, prompting companies to avoid tax aggressiveness as it can lead to negative publicity and backlash from stakeholders, potentially eroding trust. In navigating this landscape, socially responsible companies, especially those within the F4GBM Index, opt for a more conservative approach to tax planning, aligning their financial strategies with their commitment to ethical business practices and stakeholder well-being.

As for hypotheses H3a and H3c, the findings indicate that F4GBM does not affect the relationship between environmental and governance dimensions of CSR performance and tax aggressiveness. The observed phenomenon can be rationalised by considering that companies demonstrating strong environmental and governance performance have likely embedded principles of environmental sustainability and good governance deeply within their overarching business model. This integration is exemplified by their consistent commitment to adhering to corporate governance principles, emphasising both legal compliance and ethical behaviour. Specifically, companies with commendable governance performance adhere to established norms that guide various aspects of their operations, extending seamlessly to their approach to tax strategies. This commitment to values becomes an integral part of their overall business practices, demonstrating a steadfast dedication regardless of their inclusion or exclusion in the F4GBM index. Table 5-10 summarises the results of the hypotheses tested.

Table 5-10

Summary of results on the relationship between CSR performance and tax aggressiveness (BTaxDiff)

Proposed Hypothesis	Accept/Reject	Significance
H1: There is a relationship between CSR performance and tax aggressiveness in Malaysian companies.	Accept	Significant (+) (p<0.05)
H1a: There is a relationship between the environmental dimension of CSR performance and tax aggressiveness in Malaysian companies.	Reject	Non-significant (+)
H1b: There is a relationship between the social dimension of CSR performance and tax aggressiveness in Malaysian companies.	Accept	Significant (+) (p<0.05)
H1c: There is a relationship between the governance dimension of CSR performance and tax aggressiveness in Malaysian companies.	Accept	Significant (+) (p<0.05)
H2: The issuance of SRG 2015 affects the relationship between CSR performance and tax aggressiveness of Malaysian companies.	Reject	Non-significant (-)
H2a: The issuance of SRG 2015 affects the relationship between the environmental dimension of CSR performance and tax aggressiveness in Malaysian companies.	Accept	Significant (+) (p<0.05)
H2b: The issuance of SRG 2015 affects the relationship between the social dimension of CSR performance and tax aggressiveness in Malaysian companies.	Reject	Non-significant (-)
H2c: The issuance of SRG 2015 affects the relationship between the governance dimension of CSR performance and tax aggressiveness in Malaysian companies.	Accept	Significant (-) (p<0.1)
H3: The F4GBM Index affects the relationship between CSR performance and tax aggressiveness of Malaysian companies.	Accept	Significant (-) (p<0.1)
H3a: The F4GBM Index affects the relationship between the environmental dimension of CSR performance and tax aggressiveness in Malaysian companies.	Reject	Non-significant (-)
H3b: The F4GBM Index affects the relationship between the social dimension of CSR performance and tax aggressiveness in Malaysian companies.	Accept	Significant (-) (p<0.1)
H3c: The F4GBM Index affects the relationship between the governance dimension of CSR performance and tax aggressiveness in Malaysian companies.	Reject	Non-significant (-)

5.3.7 Discussion on Control Variables

This section discusses the control variables employed in the main regression (H1). *Growth* has a significant negative relationship with tax aggressiveness. The finding is supported by Mohanadas *et al.* (2020) and Wahab *et al.* (2017), who conclude that it is harder for fast-growing companies to engage in tax aggressiveness as they attract the public and regulators' attention. Profitability (*ROA*) has a significant positive relationship, consistent with the findings of Fourati *et al.* (2019), Lanis and Richardson (2012, 2018), and Mohanadas *et al.* (2020). Profitable companies have the means and resources to hide their tax aggressiveness (Mohanadas *et al.*, 2020).

CEO duality shows a significant positive relationship with tax aggressiveness, in line with the findings of Haliou *et al.* (2016), Iazzi *et al.* (2023), and Lanis and Richardson (2012). The erosion of the board's independence, as outlined by Michelon and Parbonetti (2012), not only undermines effective decision-making oversight but also heightens the likelihood of opportunistic behaviour by the CEO, as noted by Halioui *et al.* (2016). This occurs when power becomes concentrated in the hands of a singular individual. Therefore, tax aggressive strategies can be approved without a hassle, as the board might not be able to oppose those strategies when the effectiveness of board monitoring is reduced (Iazzi *et al.*, 2023).

The presence of women on board has gained importance due to their acumen in monitoring management performance. As such, the study controls board diversity to analyse whether having women on corporate boards improves tax strategies. The result shows a significant positive relationship between tax aggressiveness and board diversity, consistent with the findings of Garcia-Blandon *et al.* (2022). Garcia-Blandon *et al.* (2022) conclude that the mandatory increase in female directors caused a less effective corporate board. This is due

to qualified male directors being replaced by a limited supply of qualified female directors to fill the quota of women directors on the board. However, the reason for this study might be different. Despite the call to elevate the number of directors to 30% of the total board composition, the average board diversity hovers at approximately 17%. This falls short of creating a potential shortage of qualified women directors. Consequently, the finding of this study can be attributed to the insufficient number of women directors on corporate boards for their voices to be heard (Bear *et al.*, 2010).

Board independence has a significant positive relationship with tax aggressiveness. The finding of this thesis agrees with Boussaidi and Hamed-Sidhom (2021), Chytis *et al.* (2020), and Minnick and Noga (2010). Minnick and Noga (2010) find that companies with more independent directors engage more in foreign tax aggressiveness as they are more worried about the political cost associated with reducing local taxes as well as the ongoing management of reputational costs.

The control variables such as size, capital intensity, leverage, foreign ownership and government ownership have no significant relationship with tax aggressiveness (book-tax difference). The finding of an insignificant relationship between tax aggressiveness, company size, and government ownership concurs with the prior study by Mohanadas *et al.* (2020). The insignificant result for size may be attributed to the sampled companies being large companies that may be more inclined to be CSR performance-oriented and, thus, unlikely to engage in tax aggressiveness. Meanwhile, capital-intensive and highly leveraged companies show an insignificant relationship with tax aggressiveness as these companies can claim capital allowance and interest expense deductions.

However, the insignificant relationship between tax aggressiveness and foreign ownership contradicts the study by Salihu *et al.* (2015), who find that foreign ownership significantly promotes tax aggressiveness by avoiding taxes in the countries they operate in and parent countries. Companies with foreign ownership show an insignificant result with tax aggressiveness, as companies with foreign ownership that have headquarters in other countries have to abide by the Base Erosion Profit Shifting Rules set by OECD in 2015 (OECD, 2015). Companies have to disclose their tax strategies to the tax authorities of the respective countries in which they operate. The insignificant result between tax aggressiveness and government ownership can be attributed to government companies abiding by the regulations set by the government to set a good example for other companies. Additionally, companies do not want to lose the benefits of being politically connected.

5.4 Robustness Tests

This study performs regression tests using two alternative proxies for tax aggressiveness to check the robustness of the main findings in H1, H1a, H1b, and H1c. Following prior literature, two additional proxies are adopted, namely, *LETR* (Chen *et al.*, 2010; Davis *et al.*, 2016; Dryeng *et al.*, 2016; Hoi *et al.*, 2013) and the current *ETR* (Farouti *et al.*, 2019; Laguir *et al.*, 2015; Lanis & Richardson, 2012; Mohanadas *et al.*, 2020; Rakia *et al.*, 2023). The lower *LETR/ETR* indicates firms engaging in aggressive tax planning. The results of the robustness test using *LETR* are shown in Table 5-11, while Table 5-12 presents the result using *ETR*.

The result for hypothesis H1 reported in Column (1) of Table 5-11, when using *LETR* as the dependent variable, shows the coefficient and p-value of *CombinedESG* as -0.148 ($p < 0.01$), indicating a significant negative relationship with *LETR*. The result suggests that firms with good CSR performance tend to be more tax aggressive, lending support for H1. Additionally,

the results using *LETR* show a positive relationship between each dimension of CSR performance and tax aggressiveness. The results are reported in Columns (2) to (4). However, the results reported in Table 5-11 for hypotheses H1, H1a, H1b, and H1c using current *ETR* show a non-significant relationship between CSR performance and individual dimensions of CSR performance and tax aggressiveness.

Nevertheless, the results can be considered robust when using *LETR* to proxy tax aggressiveness. The different results using *ETR* can be attributed to the use of annual data for current tax expense and profit before tax (Dyreng, 2008). Additionally, the current *ETR* suffered from truncation bias as loss years are normally removed from data selection as there might be difficulty in interpreting the results (Henry & Sansing, 2018), which may cause distortion of results.

As for the control variables, growth, *ROA*, CEO duality, board diversity, and board independence show a significant positive relationship with the book-tax difference as a proxy for tax aggressiveness. Using *LETR*, board diversity and capital intensity show a significant negative relationship with tax aggressiveness. Foreign holding and government holding show a significant positive relationship with tax aggressiveness.

Table 5-11*Robustness tests using LETR*

Variables	Column (1)		Column (2)		Column (3)		Column (4)	
	LETR		LETR		LETR		LETR	
	H1		H1a		H1b		H1c	
	Coefficient	t value	Coefficient	t value	Coefficient	t value	Coefficient	t value
Constant	0.346	1.935**	0.319	1.775*	0.407	2.268	0.309	1.722
CombinedESG	-0.148	-2.829***						
Environmental			-0.066	-1.648*				
Social					-0.173	-3.683***		
Governance							-0.073	-2.022**
Size	0.001	0.052	0.001	0.03	0.001	-0.001	0.001	0.041
Growth	0.02	0.052	-0.003	-0.033	0.042	0.475	0.006	0.072
ROA	0.018	0.225	0.014	0.156	0.014	0.158	0.004	0.047
CapitalIntensity	0.109	1.838*	0.093	1.552	0.13	2.180**	0.068	1.177
Leverage	-0.081	-1.365	-0.064	-1.081	-0.132	-2.128**	-0.049	-0.828
ForeignHold	-0.203	-2.488**	-0.216	-2.611***	-0.191	-2.355**	-0.229	-2.833***
GovHold	-0.131	-3.236***	-0.152	-3.824***	-0.113	-2.769***	-0.141	-3.502***
CEODuality	0.013	0.357	0.024	0.676	0.012	0.337	0.016	0.431
BoardDiversity	0.27	4.012***	0.28	4.147***	0.255	3.799***	0.284	4.219***
BoardIndependence	-0.035	-0.551	-0.062	-0.977	-0.053	-0.05	-0.05	-0.772
Year dummies	Yes		Yes		Yes		Yes	
Industries dummies	Yes		Yes		Yes		Yes	
Adjusted R squared	0.346		0.339		0.353		0.341	
F-statistics	6.330***		6.170***		6.499***		6.211***	
Durbin Watson	1.73		1.722		1.743		1.727	

Variable definition – Refer to Table 4-2. Note ***, **, * denote statistically significant at $p < 0.01$, $p < 0.05$ and $p < 0.1$.

Table 5-12*Robustness tests using ETR*

Variables	Column (1)		Column (2)		Column (3)		Column (4)	
	ETR H1		ETR H1a		ETR H1b		ETR H1c	
	Coefficient	t value	Coefficient	t value	Coefficient	t value	Coefficient	t value
Constant	-0.432	-0.108	-0.425	-0.106	-0.399	-0.099	-0.418	-0.104
CombinedESG	0.49	0.429						
Environmental			0.869	0.994				
Social					0.005	0.005		
Governance							-0.107	-0.135
Size	0.035	0.149	0.038	0.164	0.042	0.181	0.046	0.194
Growth	0.209	0.115	0.23	0.128	0.322	0.176	0.337	0.187
ROA	0.258	0.128	0.059	0.029	0.337	0.167	0.345	0.172
CapitalIntensity	-1.506	-1.166	-1.759	-1.361	-1.32	-1.006	-1.305	-1.071
Leverage	0.401	0.306	0.418	0.325	0.287	0.206	0.287	0.223
ForeignHold	-0.535	-0.721	-0.577	-0.794	-0.597	-0.806	-0.622	-0.831
GovHold	0.967	0.651	0.961	0.648	0.956	0.643	0.967	0.65
CEODuality	-0.176	-0.122	-0.311	-0.219	0.001	0.001	0.055	0.038
BoardDiversity	0.033	0.018	-0.004	-0.002	0.017	0.009	-0.053	-0.029
BoardIndependence	-0.401	-0.23	-0.488	-0.285	-0.159	-0.094	-0.122	-0.07
Year dummies	Yes		Yes		Yes		Yes	
Industries dummies	Yes		Yes		Yes		Yes	
Adjusted R squared	0.015		0.16		0.014		0.014	
F-statistics	1.156		1.173		1.152		1.153	
Durbin Watson	2.182		2.185		2.181		2.181	

Variable definition – Refer to Table 4-2. Note ***, **, *denote statistically significant at $p < 0.01$, $p < 0.05$ and $p < 0.1$.

5.5 Summary

This section reports the regression results on the relationship between CSR performance, individual dimensions of CSR performance and tax aggressiveness using the data of Malaysian public-listed companies covering 2008 to 2021. A summary of the findings is shown in Table 5-10. This thesis also examines whether the issuance of SRG and the presence of the F4GBM index affect the relationship between CSR performance and tax aggressiveness.

The results indicate that companies in Malaysia, while claiming to be socially responsible, are engaging in aggressive tax strategies and that companies place more importance on the needs of their shareholders. Thus, the results support the use of shareholder theory. These results are supported in the robustness tests when using *LETR* to measure tax aggressiveness. When it comes to the effect of SRG and F4GBM on the CSR performance-tax aggressiveness relationship, the results show that the issuance of SRG does not affect the positive relationship between CSR performance and tax aggressiveness; however, F4GBM moderates the positive relationship between CSR performance and tax aggressiveness. These findings also support the importance of examining individual dimensions of CSR performance, as each dimension of CSR performance contributes differently to the relationship with tax aggressiveness. The results show that growth, return on assets, CEO duality, and board independence have a significant positive relationship with tax aggressiveness.

CHAPTER 6 CONCLUSION

6.1 Introduction

This chapter concludes the whole thesis. It first provides an overview of the thesis, which examines the relationship between CSR performance and tax aggressiveness of companies in Malaysia listed in ASSET4 using *BTaxDiff* to proxy tax aggressiveness. Next, the chapter provides an overview of the main findings, followed by the contributions and policy implications. The chapter then discusses the study's limitations and suggestions for future research.

6.2 Overview of the Thesis

Following media reports on reputable socially responsible companies not paying their fair share of taxes (e.g., Starbucks, Google, Netflix, Amazon, etc.), academicians, governments, organisations such as the OECD, the EC, NGOs, and society as a whole, have engaged in extensive discussions and debates regarding CSR performance and tax aggressiveness. The importance of CSR performance as a strategic tool for the success of businesses has been well-documented in prior studies (Adams & Zushi, 2004; Dhaliwal *et al.*, 2012; El Ghouli *et al.*, 2011; Kim *et al.*, 2014; Li *et al.*, 2018; Molfetas, 2023; Mohammad & Wasiuzzaman, 2021). On one hand, tax aggressiveness (tax payment) is considered a cost that companies want to minimise. On the other hand, tax aggressiveness is regarded as a loss of revenue to the government to fund the economy and provide essential social services to society, especially for a developing economy like Malaysia. The extant literature on the relationship between CSR performance and tax aggressiveness produces mixed results, mostly centred on developed countries.

Literature that examines the relationship between CSR performance and tax aggressiveness in Malaysia is limited. As such, the thesis fills the gap by examining the relationship between overall CSR performance and tax aggressiveness of Malaysian companies listed in ASSET4. In response to the calls of researchers (e.g., Hoi *et al.*, 2013; Laguir *et al.*, 2015; Lanis & Richardson, 2015; 2018; Ortas & Gallego-Alvarez, 2020; Yoon *et al.*, 2021), the thesis further examines the individual dimensions of CSR performance to see whether different dimensions of CSR performance relate differently to tax aggressiveness. In light of the issuance of the SRG in 2015 and the introduction of the F4GBM Index in December 2014, the thesis examines whether the SRG and the F4GBM, respectively, affect the relationship between CSR performance and tax aggressiveness and the individual dimensions of CSR performance and tax aggressiveness (Refer to Section 4.7). The main proxy for tax aggressiveness in this thesis is book-tax differences, with alternative measures such as long-run cash effective tax rate and current effective tax rate employed for robustness tests. The formulated hypotheses draw from both shareholder and stakeholder theories to guide the thesis investigation.

6.3 Summary of Findings

The thesis's first hypothesis posited a non-directional relationship between CSR performance and tax aggressiveness. The results show that the level of CSR performance can affect tax aggressiveness in either direction or have no effect. The result shows a significant positive relationship between tax aggressiveness and CSR performance. As for the individual dimension of CSR performance, the social and governance dimensions also report a significant positive relationship with tax aggressiveness respectively. The positive results align with shareholder theory, which suggests that companies prioritise their shareholders' interests more than their other stakeholders.

The results suggest that Malaysian companies do not perceive tax payments as the most effective means to fulfil their social responsibility; therefore, optimising their tax strategy within the ambit of tax law or manipulating tax loopholes is not unethical or immoral (Hasseldine & Morris, 2013; Scarpa & Signori, 2020; Windsor, 2017). Company management believes that by engaging in tax aggressiveness, companies have more investment resources, leading to economic development and social services. In this context, Malaysian companies do not perceive tax aggressiveness within the letter of the law and navigating the "blurred boundaries of the legal framework," as described by Scarpa and Signori (2023, p.151), as either illegal or immoral. Instead, they view this space as morally permissible, allowing them the flexibility in shaping their tax strategies without categorising themselves as bad corporate citizens. Additionally, companies might consider the decision on CSR performance and tax aggressiveness as separate decision-making strategies unrelated to one another. According to Landry *et al.* (2013) and Wahab *et al.* (2022), when companies distort their CSR performance but still pay their fair share of taxes, CSR performance and taxes are considered unrelated.

The introduction of the F4GBM Index moderates the positive relationship between CSR performance and tax aggressiveness. This finding indicates that companies listed in this index recognise the vital significance of nurturing strong relationships with stakeholders for sustained business prosperity. The F4GBM Index serves as a catalyst in heightening this awareness and pushing companies to avoid tax aggressiveness. This acknowledgement arises from the realisation that such behaviours could lead to negative publicity and backlash from stakeholders, potentially undermining trust and diminishing corporate credibility and corporate reputation.

Interestingly, the issuance of SRG does not appear to impact the connection between tax aggressiveness and CSR performance. This observation may suggest a potential gap in the effective integration of SRG principles into corporate practices. The lack of seamless integration indicates that these guidelines are yet to be deeply embedded in a company's operations, decision-making processes, or strategic planning, particularly considering the relatively short time since the first issuance in 2015. This brief period may introduce a time delay in the adoption and adjustment of the SRG, which does not necessarily indicate resistance but rather reflects the practical challenges of restructuring tax strategies to align with the dimensions of CSR performance.

Unexpectedly, the introduction of SRG appears to influence the individual dimensions of the CSR performance-tax aggressiveness relationship, specifically in the environmental and governance dimensions. SRG moderates the negative association between tax aggressiveness and environmental performance, implying that companies adopting SRG demonstrate a less pronounced negative correlation between their environmental performance and tax aggressiveness. Given the Malaysian government's incentives for environmentally friendly activities, firms with strong environmental performance strategically leverage these incentives to minimise tax liabilities while simultaneously investing in sustainability. In these instances, tax aggressiveness aligns with both financial optimisation and adherence to environmental goals.

The introduction of the SRG mitigates the positive correlation between tax aggressiveness and corporate governance. Emphasising the importance of governance structures for accountability and oversight in sustainability matters, the SRG signals a commitment to transparency and sustainable practices. Firms adopting the SRG, aware of

heightened stakeholder expectations for ethical conduct and responsible financial practices, may align their tax strategies accordingly. This adjustment results in a less aggressive approach, reflecting the company's dedication to meeting these expectations.

6.4 Contribution of the Study

The study offers several significant contributions. *Firstly*, this research significantly contributes to the ongoing debate on whether tax is an integral part of CSR performance or if tax and CSR performance function as substitutes. The findings reveal that Malaysian companies lean towards viewing tax and CSR performance as having a substitutive relationship, indicating that they prioritise the interests of shareholders over broader stakeholder considerations. In this context, management perceives the minimisation of tax payments as a means to accrue additional resources for fostering what they could do better than the government through tax payment to enhance the economic development and social welfare of their workforce and nearby communities, aligning with the notion of being socially responsible. The results further suggest that Malaysian companies do not consider optimising tax strategies within the legal framework unethical, highlighting a perspective where higher CSR performance correlates with a greater likelihood of engaging in tax aggressiveness. This aligns with Friedman's (1970, 2007) argument that as long as companies adhere to legal requirements, utilising tax loopholes and complex strategies to minimise tax payments (e.g., tax aggressiveness) does not conflict with their self-identification as socially responsible entities.

Secondly, this research advances the tax aggressiveness literature in Malaysia by introducing insights into the role of the SRG and the F4GBM in the relationship between CSR performance and tax aggressiveness, making it the key contribution of the thesis. This perspective contributes valuable dimensions to the existing body of knowledge in

understanding how tax aggressiveness interacts with CSR performance in the Malaysian context. Both the SRG and the F4GBM Index show an influence on the relationship between CSR performance and tax aggressiveness, suggesting the significance of prioritising stakeholder interests beyond those of the shareholders. The introduction of the SRG and the F4GBM Index serves as a catalyst for a shift in perspective, particularly for currently tax aggressive companies. Rather than viewing tax payments and CSR performance as substitutes, there is a recognition of the complementary nature of their relationship. The continuous emphasis on the significance of other stakeholder interests in the business drives this shift in perspective. Companies, including those with a history of tax aggressiveness, come to realise that attending to the needs and expectations of their stakeholders goes beyond ethical considerations—it can also be financially advantageous. This realisation prompts a re-evaluation of their approach, aligning their practices with a more holistic understanding of corporate responsibility that goes beyond immediate shareholder concerns.

While SRG may not directly address tax-related themes, it provides a framework for understanding corporate behaviour and values. By exploring how adherence to these guidelines affects tax aggressiveness, we can gain insights into the indirect impacts of CSR performance reporting on tax practices and understand how corporate transparency and ethical commitments influence financial decision-making. Furthermore, SRG emphasises transparency, ethical behaviour, and stakeholder engagement. Even if tax-related themes are not directly covered, companies that follow these guidelines are generally expected to adhere to high standards of corporate conduct, which can indirectly influence their tax practices. A commitment to transparency and ethical behaviour in sustainability reporting might align with more responsible tax practices. Additionally, examining how adherence to sustainability

reporting guidelines correlates with tax behaviour can reveal how commitments to CSR performance influence tax practices over time.

Thirdly, the present research adds to the literature on CSR performance, focusing specifically on unravelling the consequences of CSR performance. In addition to demonstrating the overarching influence of CSR performance on tax aggressiveness, the study delves deeper to provide evidence on how each dimension of CSR performance contributes to shaping tax aggressiveness. The detailed examination of individual dimensions of CSR performance allows for a nuanced understanding of the multifaceted relationship between CSR performance and tax strategies. This exploration goes beyond the aggregate CSR performance score, offering insights into how specific aspects of corporate responsibility impact the tax behaviour of companies. The insights into CSR performance dimensions' impact on tax aggressiveness offer valuable perspectives for stakeholders, aiding to understand the motivations and factors that shape the tax behaviour of Malaysian companies. The study's results indicate that Malaysian companies view tax as a substitute for CSR, often prioritising shareholders' interests. This insight can guide other stakeholders in applying more pressure on management to consider their interests as well. Additionally, it can assist policymakers in developing strategies to educate companies on the importance of balancing the interests of all stakeholders. Furthermore, this understanding is crucial for investors, regulators, and the broader community as it shows whether ethical considerations in CSR performance extend to financial decisions, such as tax planning, and how companies navigate the balance between societal responsibility and financial optimisation.

Fourthly, this study stands as a pioneering effort by encompassing the initial CSR performance framework introduced by Bursa Malaysia in 2006, along with examining the periods subsequent to the issuance of SRG in 2015 and 2018. Covering the expansive

timeframe from 2008 to 2021 provides a unique and comprehensive view of the evolution of CSR performance and its correlation with tax aggressiveness over the years. The timeframe covers eight years before the introduction of SRG and six years after the introduction of SRG, which can provide insights into the regulatory and enforcement effects of SRG on companies' CSR performance-tax relationship. This extended temporal scope also offers stakeholders, management, and policymakers a valuable opportunity to assess the long-term dynamics between CSR performance initiatives and tax strategies. The insights gleaned from this extended timeframe can guide strategic decisions and policy formulations, facilitating a deeper understanding of the evolving interplay between CSR performance and tax behaviour and suggesting actions for further improving this relationship.

Furthermore, the thesis results show that companies view tax as a substitute for CSR performance. Malaysian companies are more concerned about the interests of their shareholders than other stakeholders. As such, policymakers need to develop policies to ensure that companies pay their fair share of taxes since tax revenue is essential to fund social welfare and infrastructure projects in Malaysia.

Lastly, this study includes loss-making companies, a departure from common practice in prior Malaysian studies. This inclusion offers a more comprehensive understanding of companies' approach to CSR performance and tax aggressiveness. This inclusion sheds light on the tax strategies of these firms, which would otherwise be overlooked. Moreover, employing *BTaxDiff* and *LETR*, alongside traditional *ETR* measures, accommodates the presence of loss-making firms, enriching the analysis and providing a nuanced perspective on the relationship between CSR performance and tax strategies.

6.5 Practical Implications

The findings of this study have several implications for stakeholders, shareholders, companies, and regulators. The thesis results align with the shareholder theory, which emphasises shareholder wealth maximisation. Within this perspective, socially responsible companies do not perceive the act of not paying their fair share of taxes to be unethical. Adhering to the letter of the law implies that companies operate within the legal boundaries established by regulators, thus being ethical. In a substitute relationship, these companies believe a reduction in tax liabilities enables them to use the excess funding to fund social services; thus, they are socially responsible. Consequently, these findings suggest that regulators like Bursa Malaysia and the Inland Revenue Board of Malaysia should take into account companies' motives and objectives when revising the SRG and tax regulations. As of now, the SRG guidelines from 2015 or 2018 do not address the social responsibility aspect of paying a fair share of taxes. If regulators integrate the importance of tax contributions in funding social welfare and include disclosures about tax payments and strategies within CSR performances during guideline revisions, companies may gradually recognise the significance of fulfilling their tax obligations.

The thesis findings show that the F4GBM Index and the SRG affect the relationship between CSR performance, CSR performance's individual dimensions and tax aggressiveness, suggesting that socially responsible firms should not only prioritise the interests of their shareholders but also extend their considerations to a broader range of stakeholders. The results imply that stakeholders, including regulatory bodies, play a pivotal role in shaping companies' mindsets, particularly when their coercive power is exercised. In situations where regulatory actions have the potential to impact a company's reputation, image, credibility, and

license to operate, in such scenarios, stakeholders, including regulatory bodies, possess the influence to bring about changes in companies' behaviour by leveraging their ability to impose consequences that are significant for the company's overall standing and operations.

The thesis findings show that companies in Malaysia are not impartial in engaging in tax aggressiveness; therefore, the government and the IRBM's initiative in introducing the tax reform programme -Tax Corporate Governance Framework, with the first phase commencing in June 2022 to encourage better tax compliance among companies is a good step forward to improve compliance. The Malaysian government depends heavily on tax revenue to fund its economic development and social services. Thus, the loss of income due to tax aggressiveness will disadvantage the government in fulfilling its duties for the country. In addition, the Tax Governance Guide published by The Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA) in collaboration with Bursa Malaysia in October 2021, adapted from GRI 207 on disclosure on tax strategy, tax risk management and tax management, may be able to help companies be transparent in their tax disclosures. The findings of this thesis provide the first step in providing insights into Malaysian companies' tax strategies that could be mitigated and amplified by the government and the regulator's initiatives, such as the F4GBM and the SRG.

Consequently, to reduce tax aggressiveness, policymakers, such as Bursa Malaysia, should consider tax transparency by implementing a scoring system for disclosures, which includes tax disclosures. Companies could be penalised, including the possibility of delisting, if they score below the set target. This proposed approach aims to create a more comprehensive evaluation of corporate transparency and accountability, encouraging adherence to specific standards in their disclosures, especially in areas related to tax matters.

The findings of this study may help companies understand the importance of coordinating their CSR performance strategies with their tax strategy. Companies should voluntarily disclose their tax strategy in their disclosure on CSR performance to show that they are transparent and ethical and adopt tax as part of their corporate social responsibility. By doing so, companies are showing their stakeholders and society that they are ethical and socially responsible. This can help to enhance corporate reputation and improve corporate sales and value in the long run.

Another aspect that regulators and policymakers need to consider is the tax incentives offered to companies to attract investment. The findings show that companies may be using loopholes to enjoy tax incentives. As shown in the Ensco Gerudi case, the related company formed a shell company in Labuan, thereby enabling Ensco Gerudi to avoid paying the withholding tax. Therefore, policymakers must ensure that tax incentives do not incentivise companies to exploit them as a means to minimise their tax payments. As many of the existing tax incentives have not undergone review, it is time for the government to streamline them to enhance their efficiency and effectiveness (Deloitte, 2021). Policymakers need to have proper checks and balances to ensure that the incentives are implemented correctly and that companies do not have a chance to manipulate the incentives. Additionally, policymakers, Bursa Malaysia, and IRBM need to make it compulsory for companies and related companies that enjoy tax incentives to disclose their tax strategies on these incentives in their tax disclosures. As such, it may encourage companies in Malaysia to be ethical and socially responsible in their tax strategy.

Furthermore, it is hoped that the findings of this study can help companies realise the importance of paying their fair share of taxes, as the government uses the tax payments to

fund the country's infrastructure. It is hoped that companies realise that when they engage in tax aggressiveness, the government will have less funds to maintain or improve the country's social welfare and companies might lose their loyal or future customers if news of their tax aggressiveness is made known.

6.6 Limitations and Recommendations

The thesis is subject to the following limitations. The first limitation of the thesis is the small sample size, as the sampled companies are chosen from ASSET4. The number of Malaysian companies in ASSET4 is limited, especially for the thesis observation years starting in 2008. In addition, the measure of CSR performance using ASSET4 might result in the finding of the study not being easily comparable to other Malaysian studies that self-calculated their CSR performance scores. The second limitation lies in generalisability. The findings regarding CSR performance and tax aggressiveness in Malaysian firms may not be universally applicable to other countries. This discrepancy arises from variations in economic factors, rules, and regulations across different jurisdictions. The third limitation is the measurement of tax aggressiveness. The study uses proxies (*BTaxDiff*, *LETR*, *ETR*) for tax aggressiveness based on data from financial statements. Tax information is not available publicly as it is considered confidential in Malaysia. As such, the accuracy of the data cannot be guaranteed. The fourth limitation of the study is the use of only non-financial companies as sampled companies. As such, the result does not reflect the whole industry in Malaysia, and the CSR performance stance of non-financial companies could not be compared with that of financial companies. The fifth limitation of the study is the lack of industry comparison. Due to data limitations, the study was unable to assess which industries exhibit elevated levels of social responsibility or are more inclined to engage in tax aggressiveness.

Future studies should consider expanding the sample size to cover a broad range of companies. Since 2021, Bursa Malaysia has issued the CSR performance score for publicly listed companies in Malaysia in collaboration with FTSE. The scores are given for both F4GBM companies and non-F4GBM companies. Therefore, future studies may use the CSR performance scores provided by Bursa Malaysia to verify the findings of this study.

Another future research avenue is to examine CSR performance and tax aggressiveness by including countries within the Association of Southeast Asian Nations (ASEAN) to see whether countries' institutional factors affect the relationship between CSR performance and tax aggressiveness. These countries are considered developing/emerging economies; most offer tax incentives to attract foreign direct investments, sharing some common characteristics with Malaysian companies.

Another avenue is for comparative studies to be conducted between financial companies and non-financial companies in Malaysia. Since financial companies are heavily regulated, there is a possibility that these companies might be more socially responsible and less tax aggressive. This can give regulators additional insight into regulations that can be implemented to improve non-financial companies' stance on CSR performance and tax aggressiveness. Comparative studies can also be conducted to examine CSR performance and tax aggressiveness by industries to better understand whether certain industries have more tax incentives that can easily be manipulated.

Future research can also examine whether the new guidelines on tax disclosure issued by Bursa Malaysia in 2021 help improve the relationship between tax aggressiveness and CSR performance. In addition to tax disclosure, IRBM introduced the Tax Corporate Governance Framework in 2022 to help companies comply and be transparent in their tax matters. Future

studies can conduct comparative studies before and after introducing the new guidelines to examine whether introducing policies that incorporate tax as part of CSR performance and tax disclosure helps improve companies' stance on tax aggressiveness. This can be another interesting variable to inquire about.

Future studies can also examine the CSR performance and tax strategies of politically connected companies in Malaysia to see whether these companies have better CSR performance and are less tax aggressive.

Future research could explore various proxies for regulatory effects, enforcement pressure, and corporate reputation on the relationship between CSR performance and tax aggressiveness. It would be interesting to examine whether a proper system of checks and balances, through enforcement and education, can encourage companies to improve both their CSR performance and their tax practices.

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Appendices

Appendix 1

Total revenue and breakdown of tax revenues in Malaysia

Year	Total Revenue	Total Tax Revenue	Total direct taxes	Corporate Taxes	Composition of direct taxes to total revenue	Composition of corporate tax to total direct taxes	Composition of corporate taxes to total revenue
	(RM'000)	(RM'000)	(RM'000)	(RM'000)			
2008	159,794	112,898	82,138	37,741	51.40%	45.95%	23.62%
2009	158,639	106,504	78,375	30,199	49.40%	38.53%	19.04%
2010	159,653	109,515	79,009	36,266	49.49%	45.90%	22.72%
2011	185,419	134,885	102,242	46,888	55.14%	45.86%	25.29%
2012	207,913	151,643	116,939	51,288	56.24%	43.86%	24.67%
2013	213,370	155,952	120,523	58,175	56.49%	48.27%	27.26%
2014	220,626	164,205	126,742	65,240	57.45%	51.47%	29.57%
2015	219,089	165,440	111,770	63,679	51.02%	56.97%	29.07%
2016	212,421	169,343	109,608	63,625	51.60%	58.05%	29.95%
2017	220,406	177,658	116,024	64,465	52.64%	55.56%	29.25%
2018	232,882	174,060	130,034	66,474	55.84%	51.12%	28.54%
2019	264,415	180,566	134,723	63,751	50.95%	47.32%	24.11%
2020	225,075	154,398	112,511	50,065	49.99%	44.50%	22.24%
2021	233,752	173,704	130,116	79,829	55.66%	61.35%	34.15%
2022	294,357	208,765	153,476	82,133	52.14%	53.52%	27.90%

Source: Ministry of Finance (2023)

Appendix 2

Major tax incentives available in Malaysia

1. Pioneer status and Investment tax allowance

Under Pioneer status, qualified companies can obtain a five-year tax exemption from corporate income tax on 70 % of the statutory income, while the remaining 30% will be taxed at the prevailing corporate tax rate. Investment tax allowance is given on 60% of eligible qualifying capital expenditure incurred for a duration of five years and is used against 70% of statutory income. The balance of 30% faced tax at the prevailing corporate tax rate. If a company surrenders the pioneer status or investment tax allowance, it can reinvest the incentives above before their expiry dates.

2. Special incentive schemes

a. Reinvestment allowance

A resident company that has been in operation for a period not less than three years and incurs capital expenditure to expand, automate, modernise or diversify its current manufacturing or approved agricultural business can claim the following reinvestment allowance: -

An allowance is given for 15 years from the company's first-year claim. The allowance is computed at 60% of QCE incurred and can be utilised against 70% of the company's statutory income. However, the allowance will be withdrawn if the assets are sold off within five years. Companies that have exhausted the existing reinvestment are entitled to a special reinvestment allowance of 60% of QCE for the years 2020 to 2024.

Relocating to Malaysia incentives for manufacturing and services operations:

0% tax rates for ten years for new companies with a minimum investment of RM 300, whilst investments of RM 500 million are entitled to a 0% tax rate for 15 years. A tax rate between 0% and 10% for new companies that establish new services or relocate service facilities to Malaysia.

b. Special economic region

To promote regional growth and development, various incentives are provided for the region below:-

- Iskandar Malaysia
- Northern Corridor Economic Region
- East Coast Economic Region
- Sabah Development Corridor
- Sarawak Corridor of Renewable Energy
- Green Incentives
- Green technology projects

Companies that undertake renewable energy, efficiency energy, green building, green data, and integrated waste management are eligible for an ITA of 100% of QCE against 70% of the companies' statutory income for a period of three years.

c. Green Technology Services

Companies which provide services in areas such as renewable energy, electric vehicles, green buildings, green data centres, green certification and verification, green townships and integrated waste management are eligible for a three-year exemption from 70% of statutory income. Companies involved in solar leasing can claim an income tax exemption of 70% of statutory income for either five or ten years, depending on their energy production capacity.

d. Green technology assets

Companies that buy green technology assets in Malaysia Hijau directory are entitled to an ITA of 100% of QCE incurred for the period from 25th October 2013 to 31st December 2023, to be set off against 70% of the companies' statutory income.

e. Biotechnology industries

Eligible companies are eligible for 100% tax exemption on statutory income for ten years from the first-year companies derive statutory income; Accelerated industrial building allowance for ten years; Exemption from import duty and sales tax of imported raw materials and machinery.

f. Research and Development

- Contract R&D company.

Companies which provide R&D services to third parties are entitled to PS of 100% statutory income for five years with the right for a further five years extension. ITA of 100% of QCE incurred in the ten-year period against 70% of statutory income.

- R&D Company

A ten-year extendable ITA of 100% of QCE for a ten-year time frame to be used against 70% of statutory income.

- In house R&D

Companies that undertake in-house R&D projects are entitled to ITA at the rate of 50 % of QCE, which companies incurred within a ten-period year to be used against 70% of the company's statutory income. Companies may apply for a further ten-year extension.

Source: PwC (2023)

Appendix 3

Outline of SRG 2015

The SRG highlights the importance of sustainability, provides case studies to illustrate how companies can use sustainability to add value to the companies, and provides examples of disclosure to help companies prepare their own CSR disclosures.

Chapter 1: About this guide

Introduce the purpose and objectives of this guide. Users are provided with disclosure considerations such as reporting frameworks, resources, and experience for listed issuers.

Chapter 2 Why is Sustainability important?

Defines the concept and context of sustainability, explores the importance of sustainability management, and reports to businesses and stakeholders.

2.1 Definition of sustainability by the Brundtland Report of the World Commission on Environment and Development:

2.2 Why integrate sustainability into business.

Chapter 3: How to embed sustainability in organisations.

3.1: Key considerations for embedding sustainability.

3.2: Materiality assessment - Materiality assessment process – The process flow

Chapter 4: What to disclose under listing requirements

4.1 Outline what is required, who must comply, and when to comply. (Extracted for companies in the main market of Bursa Malaysia).

4.2: Contents of Sustainability Statement -what should be disclosed

Chapter 5. In the Appendix of SRG 2015, the themes and indicators are segregated to help companies prepare for the CSR disclosures. The table themes and indicators are shown as a section on themes, definition of the indicators, guidance on sector applicability, and references (to the Toolkits and external references). Companies are allowed to follow either GRI or Toolkits. Refer to SRG 2015/2018.

Note: Bursa Malaysia has since issued SRG 2022. However, it is not discussed in the thesis as it is issued after the sample period.

https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/content_entry5ce3b5005b711a1764454c1a/5ce3c83239fba2627b286508/files/bursa_malaysia_sustainability_reporting_guide-final.pdf?1570701456

Source: Bursa Malaysia

Appendix 4

Summary of dimensions of CSR performance

<p>Environment</p> <p>Climate change, Energy (Biofuel Renewable energy, Energy efficiency) Waste management, Biodiversity Endangered wildlife</p>	<p>Community</p> <p>Employee volunteerism Education (School adoption scheme) Youth development, Underprivileged Graduate employment</p>
<p>Marketplace</p> <p>Green products, stakeholder engagement Ethical procurement, supplier management Vendor development, Social branding Corporate governance</p>	<p>Workplace</p> <p>Employee involvement, workplace diversity Gender Issues, Human Rights, Quality of life Human capital development, Labour rights Health & Safety</p>

(Source: Bursa Malaysia CSR Framework 2006)

Appendix 5

Application of Carroll CSR pyramid relative to tax

CSR Concept	Application to Tax
Philanthropic Responsibility Good corporate citizen Improve the quality of life Contribute to society	 Pay our fair share of taxes
Ethical Responsibilities Be ethical Do what is right and fair	 Follow the spirit of the law and avoid indulging in tax aggressiveness and exploiting tax loopholes
Legal Responsibilities Abide by the law Law is to guide society on right and wrong	 Follow the letter of the law
Economic Responsibilities Be profitable	 Claim the right amount of tax expenses and tax incentives

Adapted from: Carroll (1991) and Krieg & Li (2021)