

GOVERNMENT-LINKED INVESTMENT COMPANIES' SHAREHOLDINGS AND TAX AGGRESSIVENESS

Rahayu Abdul Rahman, Nur Farizan Mazhani Mahmud,
Naimah Zaini and Maizura Meor Zawawi

Faculty of Accountancy, Universiti Teknologi MARA, Tapah Campus, Malaysia.
E-mail: rahay916@perak.uitm.edu.my

ABSTRACT

The purpose of this study is to investigate the impact of government institutional shareholdings via government-linked investment companies (GLICs) on tax aggressiveness strategies of Malaysian government-linked companies (GLCs). This study uses effective taxes rate (ETR) and tax paid to operating cash flow (TPOC) as proxies of tax aggressiveness. The GLCs will be classified as tax aggressive firms if the ETR and TPOC are less than the corporate statutory tax rates. Using a sample of 75 firm-year observations of Malaysian GLCs listed on Bursa Malaysia from 2010 to 2014, this study finds that GLCs are less likely to engage in tax aggressive. The findings show that there is a significant and negative relationship between GLICs shareholdings and tax aggressiveness. The evidence suggests that GLICs are the effective government institutional investors in mitigating tax aggressive strategies of their portfolio firms. In addition, this study provide empirical evidence to highlight the commitment of GLICs in protecting government revenues by avoiding aggressive tax planning in their portfolio firms in order to assist government's social and political objectives. This study is one of the few studies that examine the effectiveness of GLICs monitoring in mitigating tax aggressiveness in GLCs. This study extend prior studies by using both conforming and non confirming measures of corporate tax avoidance and segregating GLICs shareholding into two categories; Federal Government Pension Investment Funds (FGPIF) and other GLICs (OFGLIC).

Keywords: government ownership, government-linked investment companies, government-linked companies, tax aggressiveness, institutional investors, Malaysia.

ARTICLE INFO

Article History:

Received: 25 July 2018

Accepted: 1 November 2018

Published: 31 December 2018

INTRODUCTION

Chen, Cheng and Shevlin (2010) argue that taxes represent a significant cost to the firm and a reduction in cash flows available to the shareholders. Thus it is generally expected that shareholders prefer tax aggressiveness in order to reduce taxes. However, this argument ignores considerations of the characteristics of firms, especially the ownership structure (Jianfu & Sudibyo, 2016). This study seeks to answer an important question raised in the corporate governance literature about the effectiveness of government shareholding via its institutional investors in controlling managerial moral hazard namely tax aggressiveness. In general, there are two competing views on the effects of government institutional ownership on companies' tax aggressive strategies. According to Chan, Mo, and Zhou (2013), government shareholdings limit tax aggressive strategies. It is because managers of government-controlled firms are appointed and evaluated by the government owners. Thus, they are committed to assist the controlling shareholder (government) to protect government revenues to achieve social and political goals by maximizing the tax revenues. In addition, Chan et al. (2013) argue that managers with a reputation for paying more taxes can enhance their political capital and increase their chances for promotion in government. As a result, it will reduce the degree of tax aggressiveness in such firms. Besides, Zhang et al. (2016) argue that state-owned firms incur political costs associated with government's intervention in such firms. These political costs include excessive taxation and redundant employment in order to assist the government to meet social and political objectives.

On the other hand, some scholars argue that some of managers of government controlled firms use tax aggressive strategies to minimize tax payment for individual gains (Chan et al., 2013; Bushman et al., 2004). According to Chan et al. (2013) in Chinese market setting, tax revenues collected from local government controlled firms and central government controlled firms must be shared among different layers of government. They add that due to the tax regulation, local government controlled firms only can take 40 per cent of the total tax revenue. This scenario will motivates the management of local government controlled firms to minimize tax revenue in order to keep more resources in their firms.

Consistent with these conflicting theories, previous research on the relationship between government ownership and tax aggressiveness has

provided mixed results (see for example, Jianfu & Sudibyo, 2016; Chan, Mo, & Zhou, 2013; Zhang, Lijun, Zhang, & Yi, 2016). This study contributes to the current debate on the alignment versus entrenchment effect of the government institutional investor's ownership by investigating whether such ownership could be associated with a lower degree of tax aggressiveness.

This study focuses on Malaysia as a country that provides an ideal setting to examine the effects of government ownerships via its institutional investors on tax aggressiveness. The Malaysia setting has several advantages. First, government linked companies (GLC) are a strong feature of the Malaysian corporate sector. GLCs controlled by the government via its institutional investors which are known as government-linked investment companies (GLICs). Currently, there are seven GLICs, including the Employee Provident Fund (EPF), Khazanah Nasional Berhad (KNB), Kumpulan Wang Amanah Pencen (KWAP), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), Menteri Kewangan Diperbadankan (MOF) and Permodalan Nasional Berhad (PNB). The Malaysian government, via its GLICs, owns the majority stake of the listed firms in several key industries such as electricity, telecommunications, postal services, airlines, airports, public transport, water and sewerage, banking and financial services. Thus, as a controlling shareholder, Malaysian government have a power to direct a firm to contribute to achieving social and political goals by maximizing tax revenues.

Second, in Malaysia, GLICs have emerged as a powerful constituent playing a very significant role in corporate governance. In 2004, the Malaysian government introduced various initiatives and measures to instil better governance practices in GLICs and their investee companies. For example, in 2007, the Guide of Best Practices for Institutional Investors was issued, setting out how GLICs should discharge their responsibilities on behalf of their beneficiaries and other stakeholders to influence, guide and monitor investee companies in a responsible way. In fact, each GLIC has its own strategies for exercising influence over its investee companies and holding them accountable for good governance. For example, the EPF, as a leading retirement savings fund in Malaysia, has taken numerous initiatives in promoting and ensuring more effective corporate governance standards in its investee companies. Among the initiatives undertaken are dialogues with the regulators, the Securities Commission and Bursa Malaysia; continuous

engagement with the investee companies, which emphasize performance and corporate governance; and most recently, the introduction of the EPF's Corporate Governance Principles and Voting Guidelines. This booklet, which emphasises the accountability, integrity and transparency of the board of directors and disclosures such as size and composition of the board, separation of power between chairman and CEO, re-election of directors, authority to allot and issue shares, employee share option schemes, related-party transactions and dividend policy, provides guidelines to the EPF and its investee companies. Given that, GLICs are expected to be effective monitors in limiting managerial misconducts including tax aggressiveness. Thus, the main objective of this study is to examine the impact of GLICs' ownership on GLCs' tax aggressiveness.

Based on a sample of 75 firm-year observations of Malaysian GLCs from 2010 to 2014, this study finds that GLCs are less likely to engage in tax aggressiveness activities. In particular the findings show that there is a significant and negative relationship between GLICs shareholdings and tax aggressiveness. The evidence suggests that GLICs are the effective government institutional investors in mitigating tax aggressiveness of their portfolio firms. In addition, this study provide empirical evidence to highlight the commitment of GLICs in protecting government revenues by avoiding aggressive tax planning in their portfolio firms in order to assist government's social and political objectives.

This study makes multifaceted contributions. First, the study expands on the existing body of knowledge by providing evidence that government institutional investors are important determinants for corporate tax aggressiveness in Malaysia. This is an extension of prior studies on government ownership and institutional investor ownership influence on tax aggressive strategies (Jianfu & Sudibyo, 2016; Chan, Mo, & Zhou, 2013; Zhang, Lijun, Zhang, & Yi, 2016). Prior studies use ETR to measure tax aggressiveness. Hanlon and Heitzman (2010) however argue that ETR only capture non conforming corporate tax aggressiveness. Thus, following their suggestion, this study use both conforming and non conforming measures to capture more comprehensive tax aggressiveness. Further, following Bin-Muhamed (2013), this study segregates GLICs into two categories; Federal Government Pension Investment Funds (FGPIF) and other GLICs (OFGLIC). According to him, these two types of GLICs have different

objectives, investment strategies and control structures. Given that these differences matter in examining the impact of these two types of GLICs on tax aggressiveness. In addition, this study highlights on significant role of government institutional investors such as GLICs in ensuring more effective corporate governance practice in Malaysian setting.

The remainder of the paper is organized as follows. Section two provides a brief description of Malaysian GLICs. Section three draws a connection between tax aggressiveness and government ownership and develops the research hypothesis. Section four elaborates the research design. Section five presents and discusses the findings. The final section provides the summary and conclusions.

INSTITUTIONAL BACKGROUND: MALAYSIAN GOVERNMENT-LINKED INVESTMENT COMPANIES (GLICS)

In Malaysia, GLICs are the investment arms of the government in allocating some or all of their funds to publicly listed companies on Bursa Malaysia, which are known as Government-Linked Companies (GLCs). As previously explained, there are seven GLICs, whose functions are as follows; EPF is a Malaysian government agency, which is incorporated under the Employees Provident Fund Act 1991 (Act 452). The main objective is to manage the compulsory savings plan and retirement planning for private sector workers in Malaysia and provide retirement benefits for its members through management of their savings in an efficient and reliable manner. KNB was incorporated under the Companies Act 1965 on 3 September 1993 and plays an important role in holding and managing the commercial assets of the government in pursuing Malaysia's long term economic interests. LTAT was established by an Act of Parliament (Act 101, 1973). As a government statutory body, LTAT provides retirement benefits and a savings scheme for officers of Angkatan Tentera Malaysia. KWAP or the Retirement Fund (Incorporated), was incorporated on 1st March 2007 under the Retirement Fund Act 2007. The objective of KWAP is to assist the federal government in funding its pension liabilities. LTH was incorporated in 1962 as a government initiative for the welfare of Muslims in Malaysia who wish to perform the Haj. LTH facilitates Malaysian Muslims both in savings

and by investing in Shariah-compliant financial instruments. MOF was established pursuant to the Ministry of Finance (Incorporation) Act 1957. In general, it aims to manage the nation's finances and economy effectively, transparently and efficiently to achieve Malaysia's development goals and improve the quality of life and social wellbeing. The final GLIC is PNB, which is the biggest investment fund management company in Malaysia. It was incorporated on 17 March 1978 to support the Government's New Economic Policy in promoting share ownership among the Bumiputera and to develop opportunities for deserving Bumiputera professionals to participate in the creation and management of wealth.

LITERATURE REVIEW

Tax Aggressiveness and Government Ownership

Prior studies highlight that taxation is the most common way through which the government interferes in state-owned firms especially in emerging markets (Zhang et al., 2016). They argue that state-owned firms are often required to pay for the social expenses of government through excessive taxation results in a higher tax burden for such firms. Hanlon and Heitzman (2010) define tax aggressive strategies as any planning behaviour that reduces a firm's tax burden. Meanwhile, Abdul Wahab et al. (2017) stress that tax aggressiveness refers to various tax-planning strategies that are used to minimize tax liability. They add that although tax aggressive strategies is legal but it will results in revenue losses to the country.

A review of the literature on the impact of government ownership on tax aggressiveness showed mixed empirical results. For example, Jianfu and Sudibyo (2016) examine tax aggressiveness in Chinese state-owned firms during the 2009 to 2013 period. They find that state-owned firm has a significant and positive relationship with the proxy of tax aggressiveness; effective tax rates (ETR). The results reveal that such firms paid higher taxes than private firms. Further, Bradshaw et al. (2016) examine whether state ownership affects tax aggressiveness. They predicts that income taxes of state-owned firms are higher than those of non-state owned firms due to tunnelling activities. They argue that in state-owned firms, taxes are an implicit dividend to the controlling shareholder; the state. Thus less

tax aggressiveness strategies actually benefits the state as the controlling shareholders, but reflects an implicit expropriation of wealth from minority shareholders. Consistent with their prediction, they find that state-owned firms exhibit significantly higher income tax rates than non-state owned firms. The results suggest that such firms are less likely to engage in tax aggressive activities in order to maximize tax revenues of the state. Chan et al. (2013) investigate how government ownership and corporate governance influence a firm's tax aggressiveness. Using Chinese listed companies during 2003–2009, the study finds that compared with government-controlled firms, non-government-controlled firms pursue a more aggressive tax strategy. The results show that government-controlled firms are less likely to engage in tax aggressive activities than non-government-controlled firms.

Zhang et al. (2016) investigate the impact of state pyramidal structure on firm's tax aggressiveness. This study finds that state-pyramidal layers are significantly and negatively associated with ETR for Chinese local state-owned firms. The results suggest that state-controlled pyramids protect such firms from political intervention results in reducing firm tax burden.

In the Malaysian context, Adhikari et al. (2006) examine whether government ownership as a proxy for political connection affect ETR. Using Malaysian listed companies during 1990 to 1999, this study finds that firms with political connections and have government shareholdings pay tax at significantly lower effective rates than other firms.

Hypotheses Development

Khurana and Moser (2010) argue that firms controlled by the institutional investors in long term horizon are less tax aggressive. It is because such investors are more concerned with the long-term consequences of aggressive tax strategy. Bin-Muhamed (2013) argues that GLICs might have more incentive to deter managerial misconducts in their portfolio companies as their investments are long-term oriented. Further, in 2004 the Malaysian government embarked on a transformation initiative to restructure GLCs and GLICs. The transformation has been monitored by a government agency called the Putrajaya Committee on GLC (PCG). The transformation policy highlights ten initiatives: (1) enhance board effectiveness; (2) strengthen directors' capabilities; (3) enhance GLICs'

monitoring and managerial functions; (4) improve regulatory improvement; (5) clarify social obligations; (6) review and revamp procurement; (7) optimize capital management practices; (8) manage and develop leaders and other human capital; (9) intensify performance and management practices; and (10) enhance operational improvement. In other words, the GLICs, are explicitly charged with improving the corporate governance of their portfolio companies. Therefore, it is expected that companies controlled by GLICs are less likely to be engaged in tax aggressive strategies. Based on this notion, this study hypothesises that:

H₁: GLICs shareholdings have significant and negative association with tax aggressiveness.

RESEARCH DESIGN AND METHODOLOGY

Sample Selection and Data Collection

Our sample comprised all GLCs controlled by GLICs listed on Bursa Malaysia for the period 2010 to 2014. This study identified GLCs from the list issued by Putrajaya Committee which available at www.pcg.gov.my. The data required for computing tax aggressiveness and firms' specific characteristics as control variables were collected from Thompson Reuters' Datastream. Meanwhile the data on GLICs ownerships and various governance variables were collected from the companies' annual reports. This procedure yielded 75 firm-year observations.

Operationalisation of the Dependent, Independent and Control Variables

Dependent variable: Tax aggressiveness

The dependent variable for this study is tax aggressiveness. Prior studies highlight that effective tax rates (ETR) is a common measure of corporate tax aggressiveness. Following prior research, this study uses ETR to measure non conforming tax aggressiveness. We define ETR as the ratio of the total tax expenses to the total income before tax. Following Hanlon and Heitzman (2010), this study uses tax paid to operating cash flow (TPOC) as second proxy to measure conforming tax aggressiveness. Consistent with Abdul Wahad et al. (2017), we classifies GLCs as tax aggressive firms when

the ETR and TPOC lower than corporate statutory tax rates. Observations with a negative value for tax aggressiveness are coded as 1, represent as tax aggressive firms. Observation with a positive value for tax aggressiveness are coded as 0, represent non-tax aggressive firms.

Independent variable: Government linked investment companies' shareholdings

The key independent variable in this study is GLICs shareholdings. The measurement of GLICs shareholdings is the total percentage of each GLICs in GLCs. The seven GLICs namely Employees Provident Fund (EPF), Khazanah Malaysia Berhad (KNB), Kumpulan Wang Amanah Persaraan (KWAP), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), Ministry of Finance (MOF) and Permodalan Nasional Berhad (PNB).

Control variables

We control for a number of variables in the test. These control variables are classified into two categories: firm characteristics and board characteristics. Following Chan et al. (2013), we control for firm's size. Size is measured as a natural logarithm of the total assets. Large firms often receive more media attention, have a higher analysts following and face a greater level of public scrutiny that results in less tax aggressiveness. Second, the study controlled for leverage. Firms with higher levels of debt have lower ETR because of the deductibility of interest payments for tax purpose (Chan et al., 2013). Third, the study controlled for market to book ratio (MB). MB is a proxy for firms' investment opportunities. Spooner (1986) argues that firms with greater investment opportunities have higher ETRs.

In line with prior research, this study controlled for board characteristics. First, the study controlled for board independence. Fama and Jensen (1983) theorise that the board of directors is the highest internal control mechanism, responsible for monitoring the actions of top management. However, they argue that the ability of the board to act as an effective monitoring mechanism depends on its independence from management. Independent directors are believed to be able to monitor managers as they have incentives to develop their reputations as experts in decision control (Agrawal & Chadha, 2005). Thus, the presence of independent directors on the board is seen as a check and balance mechanism, enhancing a board's

effectiveness and constraining opportunistic behaviour among managers. This study predicted a negative association between board independence and tax aggressiveness practices, as the theory suggests.

Secondly, the study controlled for board size. Jensen (1993) and Garcia-Meca and Ballesta (2009) suggest that the number of directors is one of the important factors in the effectiveness of a board. There are two views on this issue. Proponents of agency theory believe that a larger board has more opportunity to control and monitor the actions of management as it has a greater number of people with more expertise (Dalton et al., 1999), and valuable experience (Xie et al., 2003) to prevent or limit managerial opportunistic behaviour. Finkelstein and D'Aveni (1994) noted that a larger board has more problem-solving capabilities, as the burden facing the directors is equally shared among them.

Finally, the study controlled for audit-committee independence. Prior studies suggest that the effectiveness of an audit committee is due, in part, to the extent to which the committee is independent. Independence is considered an essential quality for an audit committee in fulfilling its oversight role as it allows both the internal and external auditors to remain free of undue influences and interference from management (Vicknair, Hickman & Carnes, 1993). A year dummy and an industry dummy were also included in the study to control for year and industry effects.

Multivariate Regression Models

To test the research aims, we run the following regression models:

$$ETR_{ft} = \alpha + \alpha_1 GLIC + f(\text{control variables}) + \zeta \quad (1)$$

$$TPOC_{ft} = \alpha + \alpha_1 GLIC + f(\text{control variables}) + \zeta \quad (2)$$

Where,

Dependent variables:

$$\begin{array}{ll} ETR_{ft} & 1 \text{ if the ETR is less than the statutory tax rates, 0 otherwise,} \\ TPOC_{ft} & 1 \text{ if the TPOC is less than the statutory tax rates, 0 otherwise,} \end{array}$$

Independent variables:

$GLIC_{ft}$ Total percentage of shareholding by LTAT, EPF, KNB, KWAP, LTH, MOF, PNB,

Control variables:

$BODIND_{ft}$ The proportion of independent directors on the board,

$BODSIZE_{ft}$ The number of directors on the board,

$AUDIND_{ft}$ The proportion of independent directors on the audit committee,

$SIZE_{ft}$ Natural log of total assets of firm f in year y ,

LEV_{ft} Total liabilities to total assets of firm f in year,

MB_{ft} Market to book ratio of firm f in year y ,

$YEAR_{ft}$ Year,

IND_{ft} Industry.

RESULTS AND FINDINGS

Descriptive Analysis

The mean of GLICs shareholdings is 50.10 percent and ranges from zero to 81.21 percent. The mean of size is 17.05 indicates that GLCs are large public listed companies. For leverage, the mean is 0.66, suggests that 66 percent of GLCs' total assets are financed by liabilities. Looking at the governance variables, the mean board members is 11 persons. Meanwhile the means of proportion of independent directors on the board and audit committee are 5 and 3 persons respectively.

Correlation Analysis

Table 1 shows the Pearson correlations between tax aggressiveness measures, GLICs shareholdings and various control variables. In general, GLICs is positively correlated to TPOC at the five per cent significance level. The association is contradict to the expectation and require further analysis.

Table 1: Correlation analysis of Tax Aggressiveness Proxies, GLIC and Control Variables

Variables	ETR	TPOC	GLIC	SIZE	LEV	MB	BODSIZE	BODIND	AUDIND
ETR	1	-.098	.041	.323**	.030	-.166	.080	.347***	.099**
TPOC		1	.243**	.095	.161	-.144	-.049	.244**	.153
GLIC			1	-.284**	.295**	-.304*	-.308**	-.126	-.241**
SIZE				1	.438**	.152	.327*	.380**	.425**
LEV					1	-.153	-.503**	-.275*	-.171
MB						1	.066	.208	.020
BODSIZE							1	.683**	.564**
BODIND								1	.650**
AUDIND									1

Note: This table provides correlation matrix for explanatory variables.

***Statistical significance at the 1% level.

** Statistical significance at the 5% level.

* Statistical significance at the 10% level.

Multivariate Analysis

Ordinary least squares procedures (OLS) were used to estimate the models stated in Section 4.3. The results of the above models are reported in the following subsections.

Tax Aggressiveness Measures and GLICs Shareholdings and Control Variables

Table 2 reports the results of the regression estimation of GLICs ownerships on the tax aggressive measures. As expected in H_1 , the results show that GLICs shareholdings have significant negative association with two proxies for tax aggressiveness; ETR and TPOC. This is in line with the argument put forward by Khurana and Moser (2010) that firms controlled by the institutional investors in long term horizon are less tax aggressive. Further as institutional investors controlled by the government, GLICs more committed to assist the controlling shareholder (government) to protect government revenues to achieve social and political goals by maximizing the tax revenues. The result of this study is consistent with that obtained by Jianfu and Sudiby (2016), Bradshaw et al. (2016) and Chan et al. (2013).

With regard to the control variables included in this study, Table 2 shows a significant negative association between two proxies of tax aggressiveness; ETR and TPOC and SIZE. This implies that larger firms are less likely to involve in tax aggressiveness. This result is consistent with previous research by Abdul Wahab et al. (2017) and Salihu et al. (2015). In

addition, Table 2 reveals a significant positive relationship between LEV and ETR and TPOC. The finding indicate that firms with higher level of debts are more motivated to engage in tax aggressive planning, consistent with the findings of that Abdul Wahab et al. (2017), who ind similar results for Malaysia firms.

Table 2: Regression Analyses for GLICs Shareholdings

Variables	Model (1) ETR	Model (2) TPOC
GLIC	-461** (-4.461)	-203* (-2.944)
<i>Control Variables: Firm's specific characteristics</i>		
SIZE	-6.797** (-3.146)	-3.560** (-3.656)
LEV	8.127** (3.695)	7.624** (4.749)
MB	.828 (.195)	2.105 (1.305)
<i>Control Variables: Firms' board characteristics</i>		
BODSIZE	-.016 (-.001)	-.834 (-.666)
BODIND	-1.627* (-2.349)	1.098 (1.140)
AUDIND	-3.134 (-1.420)	-.155 (-.007)
Intercept	.642** (5.398)	1.834** (1.023)
Observations	75	75
R-Square	77.20	74.40

Note:

***Statistical significance at the 1% level.

** Statistical significance at the 5% level.

* Statistical significance at the 10% level.

Additional Analysis

This study extended the test by examining the impact of two main group of GLICs; Federal Government Pension Investment Funds (FGPIF) and other GLICs (OFGLIC) on tax aggressiveness of Malaysian GLCs. FGPIF consists of EPF, LTAT, LTH, KWAP and PNB. Meanwhile OFGLIC consists of KNB and MOF. Prior studies argue that the effectiveness of institutional investors' monitoring functions is dependent on the nature of their investment horizons (Bushee, 1998; Koh, 2007), the constraints to which they are subjected, their objectives, and their preferences for liquidity (Gillan & Starks, 2000). Bin-Muhamed (2013) stresses that these two main groups of GLICs in Malaysia have different objectives, investment strategies and control structures. He argues that FGPIF has

clearer objectives than its counterpart, OFGLIC. The main objective of FGPIF is to provide retirement benefits or maximize savings returns for its members in an efficient and reliable manner. In contrast, OFGLIC is a trustee for the country’s commercial assets, with the main objective of promoting the federal government’s economic and social policies. While OFGLIC’s board is chaired by the Prime Minister and consists of government representatives, FGPIF’s board is dominated by representatives of its depositors and specialist advisors. Bin-Muhamed (2013) argues that government representatives are constrained by time and business skills as well as experience, which limits their ability to supervise and control OFGLIC. Given that, these differences matter in examining the impact of these two groups of GLICs on tax aggressiveness. Similar to our main regression in Table 2, we find that both FGPIF and OFGLIC have negative and significant relationship with tax aggressiveness. The findings are consistent with their commitment in protecting government revenues by avoiding aggressive tax planning in their portfolio firms in order to assist government’s social and political objectives regardless of their objectives and investment strategies. The findings suggest that both of FGPIF and OFGLIC are the effective monitor tax aggressiveness practices of Malaysian GLCs.

Table 3: Regression Analyses for Two Main Group of GLICs; FGPIF and OFGLIC

Variables	Model (1) ETR	Model (2) TPOC
FGPIF	- .473** (-.4.259)	-.202** (-2.808)
OFGLIC	-.536** (-3.060)	-.204** (-2.775)
<i>Control Variables: Firm's specific characteristics</i>		
SIZE	-5.913* (-2.591)	-3.527** (3.180)
LEV	9.295** (2.984)	7.372 ** (4.643)
MB	1.096 (.311)	2.142 (1.130)
<i>Control Variables: Firms' board characteristics</i>		
BODSIZE	.026 (.001)	-.817 (-.751)
BODIND	-1.643* (-2.371)	1.066 (.747)

AUDIND	-3.127 (-1.435)	-.099 (-.002)
Intercept	.642** (5.398)	1.834** (1.004)
Observations	75	75
R-Square	77.20	74.50

Note:

***Statistical significance at the 1% level.

** Statistical significance at the 5% level.

* Statistical significance at the 10% level.

SUMMARY AND CONCLUSION

The purpose of this study was to examine the association between GLICs shareholdings and tax aggressiveness. To capture non conforming and conforming tax aggressiveness of GLCs, the study used two different measures: effective taxes rate and tax paid to operating cash flow as suggested by Hanlon and Heitzman (2010). The study used a sample of 75 firm-year observations of Malaysian GLCs listed on Bursa Malaysia from 2010 to 2014.

Overall, the results of the study support the alignment hypothesis view that government ownership, via its GLICs limit tax avoidance. In particular, the findings indicate that there is a significant negative relationship between GLICs and two measures of tax aggressiveness; ETR and TPOC. The results suggest that GLICs are effective monitors of tax aggressive activities of their portfolio firms. The results also provide evidence on the commitment of managers of GLCs controlled by GLICs both FGPIF and OFGLIC in protecting government revenues by avoiding aggressive tax planning in their firms.

Overall, the results of this study have implications for both the theory and practice of corporate governance. This is the first study to examine two components of GLICs; FGPIF and OFGLIC in limiting conforming and non conforming tax aggressiveness among Malaysian GLCs. Thus, the results provide support for establishing a preliminary framework to empirically examine the effect of GLICs' shareholdings and its components in limiting tax avoidance activities in Malaysia. The findings should also be of interest to regulators and the GLICs as they highlight the significant role played by such institutional investors in deterring tax aggressiveness.

This study is not without its limitations. First, this study examines only Malaysian GLCs listed on Bursa Malaysia and owned by the Malaysian federal government via GLICs. To provide more interesting and meaningful results, future studies could examine all Malaysian listed firms owned by federal and state governments. Second, this study only focuses on two measures of tax aggressiveness. Another avenue for future research could be to use other proxies for measuring tax aggressiveness in order to test for the robustness of the results of this study.

REFERENCES

- Abdul Wahab, E. A., Ariff, A. M., Madah Marzuki, M., & Mohd Sanusi, Z. (2017). Political connections, corporate governance, and tax aggressiveness in Malaysia. *Asian Review of Accounting*, 25(3), 424-451.
- Adhikari, A., Derashid, C., & Zhang, H. (2006). Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. *Journal of Accounting and Public Policy*, 25(5), 574-595.
- Agrawal, A., & Chadha, S. (2005). Corporate governance and accounting scandals. *Journal of Law and Economics*, 48(2), 371-406.
- Bin-Muhamed, A. (2013). *The impact of government linked investment companies in Malaysia on the performance and earnings management of their portfolio companies*. (Doctoral thesis). Durham University, Durham, UK. Retrieved from <http://etheses.dur.ac.uk/9376/>
- Bradshaw, M., Liao, G., & Ma, M. S. (2016). Ownership structure and tax avoidance: Evidence from agency costs of state ownership in China.
- Bushee, B.J. (1998). Institutional investors, long-term investment, and earnings management. *International Journal of Economics and Management*, 3(1), 204-223.
- Bushman, R., Chen, Q., Engel, E., & Smith, A. (2004). Financial accounting information, organizational complexity and corporate governance systems. *Journal of Accounting and Economics*, 37(2), 167-201.

- Chan, K. H., Mo, P. L., & Zhou, A. Y. (2013). Government ownership, corporate governance and tax aggressiveness: Evidence from China. *Accounting & Finance*, 53(4), 1029-1051.
- Chen, S., Chen, X., Cheng, Q., & Shevlin, T. (2010). Are family firms more tax aggressive than non-family firms?. *Journal of Financial Economics*, 95(1), 41-61.
- Dalton, D. R., Daily, C. M., Johnson, J. L., & Ellstrand, A. E. (1999). Number of directors and financial performance: A meta-analysis. *Academy of Management Journal*, 42(6), 674-686.
- Fama, E., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26(2), 301-325.
- Finkelstein, S., & D'aveni, R. A. (1994). CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command. *Academy of Management Journal*, 37(5), 1079-1108.
- García-Meca, E., & Sánchez-Ballesta, J. P. (2009). Corporate governance and earnings management: A meta-analysis. *Corporate Governance: an International Review*, 17(5), 594-610.
- Gillan, S. L., & Starks, L. T. (2000). Corporate governance proposals and shareholder activism: The role of institutional investors. *Journal of Financial Economics*, 57(2), 275-305.
- Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of accounting and economics*, 50(2-3), 127-178.
- Jensen, M. (1993). The modern industrial revolution: Exit and failure of internal control systems. *Journal of Finance*, 48, 831-880.
- Jianfu, S., & Sudibyoy, Y. A. (2016). State ownership, agency conflict and effective tax rates: Evidence from China. *Corporate Board: Role, duties and composition*, 12(1-1), 109-114.

- Khurana, I. K., & Moser, W. J. (2009). *Shareholder investment horizons and tax aggressiveness*. Working paper, University of Missouri.
- Koh, P., (2007). Institutional investor type, earnings management and benchmark beaters. *Journal of Accounting and Public Policy* 26(3), 267–299.
- Salihu, I. A., Annuar, H. A., & Obid, S. N. S. (2015). Foreign investors' interests and corporate tax avoidance: Evidence from an emerging economy. *Journal of Contemporary Accounting & Economics*, 11(2), 138-147.
- Spooner, G. M. (1986). Effective tax rates from financial statements. *National Tax Journal*, 39(3), 293-306.
- Vicknair, D., Hickman, K., & Carnes, K. C. (1993). A note on audit committee independence: Evidence from the NYSE on “grey” area directors. *Accounting Horizons*, 7(1), 53–57.
- Xie, B., Davidson, W. N., & DaDalt, P. J. (2003). Earnings management and corporate governance: The role of the board and the audit committee. *Journal of Corporate Finance*, 9(3), 295-316.
- Zhang, M., Lijun, M., Zhang, B., & Yi, Z. (2016). Pyramidal structure, political intervention and firms' tax burden: Evidence from China's local SOEs. *Journal of Corporate Finance*, 36, 15-25.