UNIVERSITI TEKNOLOGI MARA

TAX AVOIDANCE, BOARD DIVERSITY AND MANAGEMENT FRAUD: MALAYSIAN PUBLIC LISTED COMPANIES

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ABSTRACT

In light of recent high-profile business failures, such as Enron, WorldCom, and Toshiba, investors have become more cognizant of the possibility that a company's financial statements may not accurately reflect its performance due to management fraud. The purpose of this study is threefold: to investigate the influence of tax avoidance on management fraud occurrence, to investigate the influence of board diversity on management fraud occurrence and to examine the moderating effects of board diversity on the relationship between tax avoidance and management fraud occurrence in Malaysian public listed companies. Using enforcement action releases issued by the Security Commission of Malaysia and Bursa Malaysia, this study identifies 50 fraud firms that committed management fraud from 2012 to 2019. The fraud firms are matched with non-fraud firms using a one-to-two ratio based on the same industry, year and firm size. As a result, this study utilises a sample of 50 fraud and 100 non-fraud firms listed on Bursa Malaysia This study employs binary logistic regression analysis and finds that tax avoidance is negatively associated with management fraud, as fraud firms are less likely to engage in tax avoidance activities. Furthermore, this study finds a significant relationship between board tenure and board education diversity with management fraud whereby an increase in board tenure and board education diversity decreases the likelihood of the occurrence of management fraud. The study also finds that board tenure and education diversity moderate the relationship between tax avoidance and management fraud. However, no evidence is found to suggest that board gender or age diversity has a mitigating effect. The results of this study indicate that board tenure and board education diversity play a significant role in curbing management fraud in Malaysian firms. Overall, this study provides valuable insights into the relationships between tax avoidance, board diversity, and management fraud in Malaysian firms, an area that has been understudied in the past.

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INTRODUCTION

1.1 Introduction

This chapter provides the background of the study in section 1.2. Section 1.3 discusses the problem statement. Next, sections 1.4 and 1.5 state the research objectives and research questions of the study. The significance and scope of the study are also presented in sections 1.6 and 1.7. Definitions of key terms and chapter outlines are provided at the end of this chapter in sections 1.8 and 1.9.

1.2 Background of Study

Management fraud attracts public attention globally, and it is an unsolved problem for businesses worldwide (Alwi et al., 2013; Hashim et al., 2019; Hashim et al., 2020). With the expansion of commerce and information technology, the cases of management fraud have continued to rise year after year, and are becoming more serious (Burns, 2019; Gupta & Gupta, 2015). According to Chenguel (2020), management fraud refers to fraudulent activities committed by senior executives of a company, either for their personal gain or to the detriment of stakeholders. Notably, high-profile cases such as Enron, WorldCom, Toshiba, Lehman Brothers, Xerox, Tyco, American Insurance Group and Satyam demonstrate that management fraud is a global phenomenon. The shocking management fraud at prominent corporations continues to raise investor awareness of fraud in general and management fraud in particular (Hashim et al., 2020; Kassem & Higson, 2012; Ramos Montesdeoca et al., 2019). Management fraud costs a lot of money and has a lot of negative consequences when it is discovered by the public (Strawhacker, 2016). Indeed, management fraud has severe consequences of losses for organisations, employees and various stakeholders (Carcello & Hermanson, 2008; Chenguel, 2020; Hashim et al., 2019; Lee, 2015; Mat Zin et al., 2020). For instance, the revelation of materially misstated financial statements resulted in huge investor losses, subsequently followed by intense media and regulatory scrutiny for the company (Carcello & Hermanson, 2008). When management fraud occurs, the consequences to investors, the organisation and the fraud perpetrators often are severe.