CEO Power, Board Tenure Diversity and Tax Avoidance: Empirical Evidence from Malaysia

Guat Khim Hooy[a]
Lian Kee Phua[b]
Universiti Sains Malaysia

Abstract: This study aims to assess the relationship between CEO power and tax avoidance and the moderating effects of board tenure diversity on this connection. Based on firms listed on the Main Market of Bursa Malaysia from 2009 to 2019, the study finds that CEOs with more dimensions of power are more likely to engage in tax avoidance activities. Further tests reveal that this positive association is strengthened by board tenure diversity, suggesting that a more diverse board tenure increases CEO competence in tax avoidance.

Keywords: Tax avoidance, effective tax rate, CEO power, board tenure diversity, emerging market
JEL classification: G34, H26

1. Introduction

Tax avoidance generally refers to a legally permitted way of reducing the tax payable to the government (Hanlon & Heitzman, 2010). However, it can easily be abused by some parties by engaging in transactions that vigorously overstep limits of the law. Internationally, tax avoidance has been recognised by scholars as an important aspect that could affect many areas of corporate outcomes, including firm performance, cost of debt, stock price crash risk, audit pricing and tunnelling (Chan et al., 2016; Desai & Dharmapala, 2009; Donohoe & Knechel, 2014; Khaoula & Moez, 2019; Kim et al., 2011; Lim, 2011). Given the potential impact of tax avoidance, it is important to understand the determinants of tax avoidance in order to promote better outcomes and prevent bad consequences.

A good way to tackle this is to study the root of the issue, that is, the CEO, who is the top executive responsible for planning and endorsing tax strategies. This could be done by examining the degree of influence or CEO power that a CEO possesses and its relationship with tax avoidance. However, empirical research that examines this relationship is still very limited (Al Mamun, 2016; Chee et al., 2017; Duan et al., 2018). Moreover, the existing literature often examines the effects of CEO power using a

[a] Accounting Section, School of Management, Universiti Sains Malaysia, 11800 USM, Penang, Malaysia. Email: guatkhim@student.usm.my (Corresponding author)
[b] Accounting Section, School of Management, Universiti Sains Malaysia, 11800 USM, Penang, Malaysia. Email: phualk@usm.my

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single dimension of power, even though many other dimensions have been introduced and recognised in the literature as important aspects of CEO power that could have an important impact on various firms' outcomes (Fetscherin, 2015; Finkelstein, 1992). Therefore, the coverage of a single dimension may not be sufficient to reflect the true level of CEO influence. All of this motivates this study to investigate how multiple dimensions of CEO power influence tax avoidance.

As CEOs can acquire power through different dimensions, this study focuses on assessing the overall impact of CEO power on tax avoidance by combining all power dimensions into a single index. This approach allows us to examine whether and how the aggregation of power across multiple dimensions influences tax avoidance. In particular, we consider five dimensions of CEO power, including CEO duality, CEO ownership, CEO founder status, CEO tenure and CEO education, as significant representations of CEO power, as proposed by scholars (Finkelstein, 1992).

Another factor that should not be ignored when studying the effect of CEO power on tax avoidance is the influence of the board of directors, as they are the ones responsible for supervising and governing the management and the CEO. Therefore, the second objective of this study is to examine whether board structure moderates the relationship between CEO power and tax avoidance. Specifically, this study analyses board structure from the perspective of board tenure diversity, which has been identified as an important governance mechanism to enhance board effectiveness (Securities Commission Malaysia, 2018).

Overall, the findings suggest that CEOs who possess a greater range of power dimensions are more inclined to engage in tax avoidance practices. Moreover, the results suggest that this positive correlation is intensified when there is greater diversity in board tenure, indicating that a more diverse board tenure enhances the CEO's competence in tax avoidance strategies. These outcomes broaden our understanding of the extent to which CEO power can influence a firm's tax-related decision-making processes. The exploration of the moderating effects provides additional insights into the influence of director tenure on this relationship. Collectively, these contributions enrich the existing literature, particularly in the context of tax avoidance research in developing nations, which has been relatively understudied.

The organisation of this article is as follows: the next section provides a review of the pertinent literature that contributed to the development of the hypotheses. Following that, the third section presents the study's data and methodology. The fourth section reports the baseline results. The fifth section presents the endogeneity tests, and finally, the last section offers a summary and conclusion of the study.

2. Literature Review

2.1 The Impact of CEO Power on Corporate Tax Avoidance

As per Finkelstein (1992), CEO power can be broadly defined as the CEO's ability to manage both internal and external forces. Accordingly, he suggests that CEO power can be measured based on various internal and external dimensions, which can be grouped into four basic categories, including expert, ownership, structural and prestige

power. Among the different dimensions of CEO power, scholars have recognised several dimensions that are considered to be stronger power factors, particularly those that fall under the ownership and structural power categories (Saidu, 2019). In line with this notion, a few studies have constructed a composite measure based on several important power dimensions (Srinidhi et al., 2011; Tien et al., 2013) to capture the effect. These studies suggest that the composite CEO power is a more relevant representation of the overall CEO power effect.

Empirically, only a few studies have been identified that examine the relationship between CEO power and tax avoidance. These studies mainly examine the impact of CEO power based on a single dimension. Specifically, the proxies used by Al Mamun (2016), Chee et al. (2017) and Duan et al. (2018) are CEO founder (the CEO is also the founder), compensation and publicity. These studies found that CEO power is either positively (Al Mamun, 2016; Duan et al., 2018) or non-linearly (Chee et al., 2017) related to tax avoidance. The lack of power dimensions covered and the focus on a single dimension in the existing literature portrays that there is still a lot of room to explore the connection between CEO power and tax avoidance.

This study aims to address the research gap by examining the impact of CEO power using a combination of five power dimensions that are widely recognised as essential indicators of CEO power (Finkelstein, 1992; Saidu, 2019; Srinidhi et al., 2011; Tien et al., 2013). The five dimensions include CEO founder (CEO is also the founder), ownership level, duality (CEO is also the chairman of the board), tenure and education level. These dimensions encompass all four categories of CEO power that were introduced by Finkelstein (1992). Particularly, this study examines the effects of CEO composite power based on an index made up of the five power dimensions. This allows us to identify whether the accumulation of CEO power through multiple dimensions is a factor of tax avoidance.

The relationship between CEO power and tax avoidance is not only about the CEO's ability to influence tax avoidance plans but also about the CEO's intention to engage in such activities. The CEO can either support tax avoidance that benefits shareholders or prioritise corporate reputation and social responsibility by paying a fair share of tax. Thus, there are two conflicting outcomes that could arise from the relationship. Theoretically, the relationship between CEO power and tax avoidance can be explained by two opposing theories. Agency theory suggests that there may be conflicts between the CEO and shareholders, leading to entrenchment effects (Jensen & Meckling, 1976), whereas stewardship theory suggests that CEOs may align themselves with shareholders' interests, leading to alignment effects (Donaldson, 1990). These seem to propose that regardless of whether CEOs view themselves as agents or stewards, both agency and stewardship theories suggest a positive association between CEO power and tax avoidance. The rationale for this relationship is that tax avoidance is a means of achieving goals that are aligned with shareholder interests or private benefits.

Based on the scarce empirical evidence and the underlying principles of agency and stewardship theories, it is hypothesised that CEO power is positively associated with tax avoidance. The hypothesis is presented below:

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

2.2 The Moderating Effect of Board Tenure Diversity

Appointing the right individuals to the boardroom is essential for the board to effectively carry out its oversight duties. In essence, an effective board should consist of a well-balanced combination of directors with diverse characteristics, encompassing experience, expertise and other attributes that align with the company's objectives. Therefore, the presence of ample diversity within the boardroom emerges as a pivotal asset, ultimately contributing to the enhancement of decision-making quality (Securities Commission Malaysia, 2018).

One dimension of board diversity that has garnered limited empirical attention but holds a significant influence on board effectiveness is board tenure diversity (Baker et al., 2020; Li & Wahid, 2018). The length of time directors serve on the board can substantially influence board effectiveness through the process of socialisation (Sturman, 2003). Longer tenures can enhance monitoring and advisory capability by allowing directors to develop firm-specific knowledge and relationships (Bell et al., 2011; Wong, 2018). The benefits of extended director tenures, such as knowledge continuity and collegiality, are among the advantages of long tenure recognised by companies and regulators (Li & Wahid, 2018). However, directors with lengthy tenures may have developed overly close relationships with management, potentially compromising their effectiveness in monitoring and fulfilling their responsibilities (Clements et al., 2018). Over time, this could lead to a lack of independence in their oversight role and a tendency to align closely with the management team. Moreover, long-tenured directors may inadvertently foster groupthink, a propensity to maintain the status quo, and entrenchment within the board (Anderson et al., 2004; Staw & Ross, 1980; Stevens et al., 1978).

In recent years, concerns surrounding director tenure have prompted debate, with the value of instituting term limits for directors becoming a topic of discussion (Clements et al., 2018; Wong, 2018). In Malaysia, the issue of director tenure has also been specifically addressed in the *Corporate Governance Strategic Priorities 2017–2020* report (Securities Commission Malaysia, 2018) as part of efforts to enhance board effectiveness. Given the prevalence of long-tenure directors and their potential impact on board independence, the updated *Malaysian Code on Corporate Governance* (MCCG) recommends a two-tier board member voting process for the re-appointment of independent directors who have served on the board for over nine years (Securities Commission Malaysia, 2021). Specifically, the nomination committee is tasked with ensuring periodic board composition refreshments. Independent directors with over nine years of service may continue but must switch to non-independent positions unless annual shareholder approval is obtained through a two-tier voting process.

To analyse the impact of board tenure, some studies have sought to identify an ideal average board tenure that minimises agency costs while preserving the advantages of long tenure (Bilimoria & Piderit, 1994; Rahman & Ismail, 2016). However, prescribing a specific tenure period may lead to inflexibility, making it impractical to implement and maintain (Li & Wahid, 2018). An alternative approach is to examine the tenure diversity of board members. This approach considers not only variations in

tenure but also the diversity of information resources and viewpoints of directors (Ariff et al., 2017; Hassan et al., 2020; Kosnik, 1990). Boards characterised by diverse tenure lengths may harness the benefits of both senior and junior directors, thus maintaining knowledge continuity while upholding board independence (Li & Wahid, 2018). Consequently, for an effective examination of board tenure's impact, it is imperative to consider diversity in board members' tenure lengths rather than relying solely on average board tenure.

From a theoretical perspective, the agency relationship principle posits that a tenure-diverse board can improve board governance and mitigate agency conflicts by promoting board independence and diversity of experience and thinking (Li & Wahid, 2018; Securities Commission Malaysia, 2021). This, in turn, may lead to an overall improvement in board effectiveness by avoiding an overabundance of long-tenured directors who may resist change or a preponderance of short-tenured directors who may lack knowledge. Conversely, social identity theory suggests that mixing directors with different tenures may lead to the formation of social groups based on tenure, potentially causing ingroup favouritism and outgroup discrimination that could undermine board effectiveness (Tajfel, 1982; Tajfel & Turner, 1979). Longer-tenured directors may prefer working with other senior directors, while shorter-tenured directors may gravitate towards other junior directors with similar tenure lengths, reinforcing tenure-based group boundaries and eroding board cohesion.

In terms of research, only a limited number of studies have explored the impact of board tenure diversity, including the works of Ariff et al. (2017), Hassan et al. (2020) and Li and Wahid (2018), all of which have found a positive association between board tenure diversity and better corporate performance. These findings suggest that board tenure diversity serves as an effective mechanism for reducing agency conflicts and enhancing firm performance. These insights, to some extent, signify that board tenure diversity may strengthen the positive relationship between CEO power and tax avoidance. Therefore, the following hypothesis is formulated based on the empirical outcomes and theoretical support from agency perspectives.

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

The rationale of the hypothesis is rooted in the assumption that a tenure-diverse board can act as an effective governance mechanism, exerting pressure on CEOs to pursue tax avoidance strategies that enhance firm profitability. A board characterised by diverse tenures is more likely to encompass directors with varying levels of experience, knowledge and perspectives. This diversity serves as a checks-and-balances system, promoting board independence and a broad spectrum of thinking. When CEOs hold substantial power, a tenure-diverse board is better equipped to scrutinise and guide their decisions, steering them toward profit-enhancing tax strategies. In essence, a diverse board tenure acts as a counterbalance, ensuring that CEO power is directed toward value-enhancing tax avoidance, rather than self-serving interests.

3. Research Method

3.1 Data and Sample

This study focuses on non-financial companies listed on Bursa Malaysia's Main Market from 2009 to 2019, comprising up to eleven years of data for each firm. 2009 was chosen as the starting year to minimise the impact of the global financial crisis in 2008. 2019 was selected as the ending point to avoid the effect of the economic downturn attributable to the COVID-19 pandemic, which inflicted substantial losses on a majority of global stock markets commencing in 2020. As for data, financial information, including measures of tax avoidance and control variables, is extracted from the S&P Capital IQ database, while board tenure and CEO power information is manually gathered from annual reports accessible on the Bursa Malaysia website.

3.2 The Dependent Variable of Tax Avoidance

In this study, the dependent variable is tax avoidance, which is defined in accordance with Hanlon and Heitzman (2010) framework as encompassing all transactions that could affect a company's explicit taxes. To measure tax avoidance, this study uses two proxies: the book effective tax rate (ETRB) and the cash effective tax rate (ETRC), which are commonly used to measure a firm's tax burden relative to its pre-tax income. The ETRB is calculated as the ratio of total tax expense to pre-tax book income, while the ETRC is measured as the ratio of cash tax paid to pre-tax book income (Chen et al., 2010; Dyreng et al., 2008; Dyreng et al., 2010; Lennox et al., 2013; McGuire et al., 2012). The ETRB measures the extent to which top management is concerned about reducing taxes for financial accounting purposes, while the ETRC quantifies the extent to which managers intend to minimise actual cash tax paid. Lower ETRB and ETRC indicate higher tax avoidance.

3.3 Key Independent Variables

3.3.1 CEO Power

This study examines the effects of CEO power through an index derived from five dummy variables that are proxied by five different CEO power dimensions (Srinidhi et al., 2011; Tien et al., 2013). The index is calculated as the average value of the five CEO power dimensions. Specifically, CEO duality, ownership, founder, tenure and education are the dummy variables indicating if the CEO also serves as the chairman of the board, CEO ownership percentage is higher than the sample median, the CEO is also the founder of the firm, CEO tenure is higher than the sample median, and the CEO is a postgraduate degree holder (Finkelstein, 1992; Srinidhi et al., 2011; Tien et al., 2013). A higher index score denotes greater CEO power.

3.3.2 Board Tenure Diversity

Board tenure diversity refers to the variation in the length of time that board members have served on the board. In this study, it is quantified using the coefficient of variation,

calculated as the ratio of the standard deviation to the mean of the tenure lengths of the board members (Ariff et al., 2017; Hassan et al., 2020; Kosnik, 1990). A higher coefficient of variation indicates a greater diversity in the tenure lengths among board members, reflecting a broader range of experiences and perspectives.

3.4 Control Variables

The tax avoidance model commonly incorporates various firm-specific attributes as controls to isolate the influence of the main variables of interest and obtain more accurate and meaningful results. These include firm size, financial leverage, capital intensity, inventory intensity, profitability and cash holdings. In this study, firm size is represented by the natural logarithm of total assets, financial leverage is measured by the debt-asset ratio, capital intensity is calculated as the ratio of property, plant and equipment to total assets, inventory intensity is computed as the ratio of inventory to total assets, profitability is proxied by return on assets (ROA), which is measured as profit before interest and tax divided by total assets, and cash holdings is defined as the ratio of cash and cash equivalents to total assets (Derashid & Zhang, 2003; Dyreng et al., 2010; Gupta & Newberry, 1997; Kim & Limpaphayom, 1998; Lazăr, 2014; McGuire et al., 2012; Richardson & Lanis, 2007).

3.5 Model Specifications

This study explores the link between CEO power and tax avoidance through panel regression analysis that includes CEO power and a set of control variables. CEO power, represented by a composite index derived from five power dimensions (CEO ownership, founder status, duality, tenure and education), is examined using the following equation.

$$TA_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 LEVERAGE_{it} + \beta_3 CAPINT_{it} + \beta_4 INVINT_{it} + \beta_5 ROA_{it} + \beta_6 CASHHOLD_{it} + \sum_{\beta=7}^{16} YEAR_{it} + \sum_{\beta=17}^{24} INDUSTRY_{it} + \beta_{25} POWER5_{it} + \varepsilon_{it} \quad (1)$$

In equation 1, TA_{it} represents the value of tax avoidance for firm i at year t. It is proxied by two measures: book effective tax rate (ETRB) and cash effective tax rate (ETRC). α is the constant term, which depicts the equation's intercept. $SIZE_{it}$, $LEVERAGE_{it}$, $CAPINT_{it}$, $INVINT_{it}$, ROA_{it} and $CASHHOLD_{it}$ represent the control variables of firm size, financial leverage, capital intensity, inventory intensity, profitability and cash holdings for firm i at year t, respectively. To control for unobserved year and industry effects, a series of year and industry dummies have been included in the equation. $YEAR_{it}$ represents ten years' dummies generated based on eleven years of data (2009 to 2019) for firm i at year t. $INDUSTRY_{it}$ represents eight industries' dummies generated based on nine industries of the firms (construction, consumer products, hotel, industrial products, IPC/infrastructure, plantation, property, technology, trading/services) for firm i at year t. POWER5 represents CEO power that captured the effects of overall CEO power on tax avoidance. The measure enables us to identify whether the accumulation of power through several dimensions is a factor of tax avoidance. ε_{it} represents the error term.

Next, this study investigates whether board tenure diversity moderates the relationship between CEO power and tax avoidance by multiplying the index of CEO power with the board tenure diversity measure. The equation, as follows, illustrates this analysis. In this equation, BTENURECV denotes board tenure diversity, while BTENURECV×POWER5 represents the interaction term enabling the examination of moderating effects.

$$\begin{aligned} TA_{it} = {} & \alpha + \beta_1 SIZE_{it} + \beta_2 LEVERAGE_{it} + \beta_3 CAPINT_{it} + \beta_4 INVINT_{it} + \beta_5 ROA_{it} + \\ & \beta_6 CASHHOLD_{it} + \sum_{\beta=7}^{16} YEAR_{it} + \sum_{\beta=17}^{24} INDUSTRY_{it} + \beta_{25} BTENURECV_{it} + \\ & \beta_{26} POWER5_{it} + \beta_{27} (BTENURECV \times POWER5)_{it} + \varepsilon_{it} \end{aligned} \quad (2)$$

This study employs panel regression analysis, incorporating data from firms over time to enhance result quality by minimising collinearity and boosting variability among variables. To determine the most efficient estimator for the analysis, a specification test, namely, the Hausman test is conducted, comparing fixed effects and random effects estimators. Overall, the outcomes of the Hausman test (not reported to conserve space) on equations (1) and (2) consistently present significant results, suggesting the fixed effects model is the best estimator.

To address endogeneity, a dynamic panel model, specifically the generalized method of moments (GMM), is applied using a two-step system approach, with the lagged dependent variable serving as an instrument variable. The findings of the fixed effects and the GMM models are presented in the next two sections.

4. Baseline Results

4.1 Descriptive Statistics

Table 1 presents descriptive statistics for the variables used in the study. Panel A reports descriptive statistics for continuous variables, while Panel B reports descriptive statistics for the five CEO power indicators. All continuous variables are winsorized at the 0.5% level to remove outliers. Panel A shows that the average effective tax rates on a book and cash basis are 27.13% and 26.09% respectively. This reveals that, on average, the sample firms report higher effective tax rates than the corresponding statutory tax rates (25% from 2009 to 2015 and 24% from 2016 to 2019). While these findings indicate that companies allocate a substantial portion of their pre-tax income to taxes, it's important to note that higher effective tax rates do not definitively establish the absence of tax avoidance activities. Tax avoidance strategies are multifaceted and encompass various methods for managing tax liabilities, which might not be fully reflected in these rates. Nonetheless, effective tax rates remain a common proxy for tax avoidance by scholars, as they serve as an initial indicator of firms' tax practices and establish a fundamental basis for delving deeper into the examination of tax planning and reporting behaviours.

In terms of control variables, the statistics imply that the study covers both large and small firms with book values of total assets ranging from RM12.06 million (10.48) to RM35,439.90 million (2.49). Other control variables, such as financial leverage, capital intensity, inventory intensity, cash holdings and ROA, reflect that firms are, on

Table 1. Descriptive statistics

	Panel A				
Variable	Obs.	Mean	Std. Dev.	Min	Max
ETRB	6,174	0.2713	0.2702	0	1
ETRC	6,372	0.2609	0.2738	0	1
SIZE	8,873	5.8555	1.6169	2.4899	10.4756
LEVERAGE	8,873	0.0843	0.1088	0	0.5202
CAPINT	8,873	0.5281	0.3907	0	1.8049
INVIVT	8,873	0.1347	0.1312	0	0.6131
CASHHOLD	8,873	0.1061	0.1087	0.0011	0.5386
ROA	8,873	0.0463	0.0979	-0.3329	0.3608
POWER5	3,054	2.0239	1.0461	0	5
BTENURECV	6,371	62.9132	32.9364	0	300
	Panel B				
Variable	Obs.	Frequency	Percent		
FOUNDER	5,747	2647	46.06		
DUALITY	5,747	659	11.47		
TENURE	5,692	2935	51.56		
OWNER	3,301	1646	49.86		
POSTGRAD	6,555	1239	18.90		

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

average: (1) use 8% of debt to finance their assets, (2) are highly capital intensive with more than half (53%) of total assets being property, plant and equipment, (3) have a lower proportion of assets (13%) tied up in inventories, (4) have only 10% of total assets in cash and short-term investments, and (5) generate 5% return on each unit of investment in assets.

Next, the mean of POWER5 indicates that, on average, CEOs have power on 2 of the 5 power dimensions. For the proxies of individual CEO power dimensions, the results in Panel B show that, on average, 46% of firms have a founder as CEO and 11% have a CEO who is also chairman. In addition, about half of the firms have CEOs with long tenure and high ownership, and 19% of the firms have a CEO with a postgraduate

degree. Finally, the study found that there is a high dispersion in the tenure of board members, with an average coefficient of variation of 63%. This suggests that there is considerable variation in board tenure between senior and junior directors.

4.2 Correlation Matrix

Table 2 displays the correlation matrix for all variables, excluding the five CEO power indicator variables. The coefficients range from 0.0091 (between BTENURECV and CAPINT) to 0.4981 (between LEVERAGE and SIZE), all falling within reasonable ranges. Importantly, none of the coefficients exceed 0.80, indicating the absence of multicollinearity concerns. The notable 0.8548 correlation between ETRB and ETRC is unsurprising, as both variables gauge tax avoidance-related aspects.

Table 2. Correlation coefficients

	ETRB	ETRC	SIZE	LEVERAGE	CAPINT	INVINT	CASHHOLD	ROA	POWER5	BTENURECV
ETRB	1									
ETRC	0.8548	1								
SIZE	0.0560	0.0613	1							
LEVERAGE	-0.0466	-0.0582	0.4981	1						
CAPINT	-0.2732	-0.2972	-0.1018	-0.0396	1					
INVINT	0.1792	0.1977	-0.1642	-0.1773	-0.2445	1				
CASHHOLD	-0.0288	-0.0205	-0.0624	-0.2463	-0.0674	-0.1802	1			
ROA	0.0468	0.0229	-0.0809	-0.1832	-0.0962	0.0092	0.3347	1		
POWER5	0.0363	0.0368	-0.0199	-0.0498	0.0439	0.0415	-0.0649	-0.0144	1	
BTENURECV	0.0341	0.0470	0.2211	0.0709	-0.0091	-0.0991	0.0238	-0.0697	-0.0262	1

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

4.3 CEO Power and Corporate Tax Avoidance

Table 3 reports the results on the impact of CEO power on corporate tax avoidance based on the fixed effects estimator. For control variables, estimates are generally consistent across models. The outcomes show that SIZE, INVIVT and ROA are positively connected to ETRB and ETRC, while LEVERAGE, CAPINT and CASHHOLD are negatively correlated to ETRB and ETRC, and in most cases, they are statistically significant. The findings on SIZE suggest that larger-sized firms generally participate in less tax avoidance, which can be explained by factors such as heightened tax scrutiny and their

Table 3. CEO power and corporate tax avoidance via fixed effect model

Model	1	2
SIZE	0.0143 (0.5136)	0.0497** (0.0194)
LEVERAGE	-0.2350** (0.0345)	-0.2537** (0.0132)
CAPINT	-0.0483 (0.3281)	-0.1369*** (0.0040)
INVIVT	0.4065*** (0.0010)	0.5626*** (0.0000)
CASHHOLD	-0.2285** (0.0120)	-0.1682* (0.0534)
ROA	0.4049*** (0.0005)	-0.0204 (0.8453)
POWER5	-0.0229* (0.0563)	-0.0273** (0.0143)
CONSTANT	0.2141 (0.1670)	0.0198 (0.8957)
N	2215	2323
F	6.3267	7.6690
R^2 Overall	0.0657	0.0913
Year	Yes	Yes
Industry	Yes	Yes

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

enhanced ability to conform to tax regulations and eschew aggressive tax planning, owing to their extensive resources and capabilities. Similarly, the outcomes of INVINT and ROA imply that industries with high inventory turnover and highly profitable firms tend to engage in lower tax avoidance. This could be due to firms with higher inventory intensity tend to have fewer chances for aggressive tax planning due to their complex supply chains and focus on efficient inventory management to meet customer needs. Also, more profitable firms may have less incentive to engage in aggressive tax planning, as they already generate substantial earnings and may prioritise reputation and compliance.

Conversely, the coefficients of LEVERAGE, CAPINT and CASHHOLD indicate that firms with higher financial leverage, capital intensity and cash holdings are associated with higher tax avoidance. This can be attributed to higher financial leverage providing opportunities for interest deductions, which can reduce taxable income and incentivise tax avoidance strategies; capital-intensive assets often yield substantial depreciation deductions, lowering pre-tax income and, consequently, the effective tax rate; and firms with significant cash reserves may employ strategies to minimise taxable income, as they have the financial flexibility to do so.

As for the impact of CEO power, as shown in models (1) and (2), we can see that the coefficient of POWER5 is negative and statistically significant at the 10% and 5% levels. The results imply that the higher the CEO's power, the lower the tax rate paid by the company. These results are consistent with hypothesis H1, which estimates that CEO power is associated with higher tax avoidance.

4.4 The Moderating Effect of Board Tenure Diversity

Table 4 presents results for the moderating effects of board tenure diversity (BTENURECV) on the connection between CEO power (POWER5) and tax avoidance. As shown in model (1) and model (2), the interaction terms of board tenure diversity and CEO power (POWER5xBTENURECV) are not significant. This indicates insufficient evidence to support that board tenure diversity moderates the relationship between CEO power and tax avoidance.

5. Endogeneity Test

A major concern with previous results is that they may be subject to endogeneity bias. To overcome this issue, the GMM approach was adopted in this study as it is recognised as a powerful technique that produces consistent results in the presence of different sources of endogeneity, including dynamic endogeneity, unobserved heterogeneity and simultaneity (Wintoki et al., 2012). Therefore, the results generated by this method should be more efficient and reliable.

The results based on the GMM estimator are presented in Table 5. Model (1) and model (2) report results testing whether CEO power affects tax avoidance through ETRB and ETRC. In both models, negative and highly significant coefficients of POWER5 at the 1% level indicate a strong positive association between CEO power and tax avoidance, consistent with hypothesis H1. The results are therefore consistent with those obtained

Table 4. Moderating effects of board tenure diversity via fixed effect model

Model	1	2
SIZE	0.0128	0.0494**
	(0.5641)	(0.0212)
LEVERAGE	-0.2304**	-0.2587**
	(0.0400)	(0.0125)
CAPINT	-0.0464	-0.1358***
	(0.3574)	(0.0050)
INVIVT	0.4243***	0.5785***
	(0.0007)	(0.0000)
CASHHOLD	-0.2344**	-0.1736**
	(0.0106)	(0.0480)
ROA	0.3831***	-0.0316
	(0.0011)	(0.7641)
POWER5	-0.0033	-0.0138
	(0.8541)	(0.4144)
BTENURECV	0.0006	0.0006
	(0.1957)	(0.2083)
POWER5xBTENURECV	-0.0003	-0.0002
	(0.1388)	(0.3388)
CONSTANT	0.1822	-0.0176
	(0.2570)	(0.9100)
N	2173	2282
F	5.5530	6.8074
R^2 Overall	0.0644	0.0910
Year	Yes	Yes
Industry	Yes	Yes

Notes: The dependent variables are tax avoidance measures proxied by the ratio of total tax expense to pre-tax book income (ETRB) and the ratio of cash tax paid to pre-tax book income (ETRC), respectively. There are six control variables: SIZE is the natural logarithm of total assets; LEVERAGE is the ratio of long-term debt to total assets; CAPINT is the ratio of property, plant and equipment to total assets; INVINT is the ratio of inventory to total assets; ROA is the ratio of profit before interest and tax to total assets, and CASHHOLD is the ratio of cash and cash equivalence to total assets. There are 5 dimensions in measuring CEO power: DUALITY is a dummy variable equals 1 if CEO also serves as chairman of the board, 0 otherwise; OWNER is a dummy variable equals 1 if CEO ownership percentage is higher than the sample median, 0 otherwise; TENURE is a dummy variable equals 1 if CEO tenure is higher than the sample median, 0 otherwise; FOUNDER is a dummy variable equals 1 if the CEO is the founder of the firm, 0 otherwise; POSTGRAD is a dummy variable equals 1 if the CEO is a postgraduate holder, 0 otherwise. POWER5 is the average of all 5 dummies. The moderating variable on board diversity is BTENURECV, which is the coefficient of variation of board tenure. All models include year and industry dummies to control for unobserved year and industry effects. N denotes the number of observations. The figures in parentheses are the p-values of the coefficients, and ***, **, * denote the statistical significance at 1%, 5% and 10% levels respectively.

Table 5. Endogeneity test via GMM approach

Model	1	2	3	4
Lag(ETRB)	-0.0598***		-0.0714***	
	(0.0000)		(0.0000)	
Lag(ETRC)		0.0239***		0.0413***
		(0.0000)		(0.0000)
SIZE	-0.0141***	-0.0048**	-0.0188***	-0.0041**
	(0.0000)	(0.0391)	(0.0000)	(0.0434)
LEVERAGE	-0.2364***	-0.1543***	-0.0918***	-0.1076***
	(0.0000)	(0.0000)	(0.0009)	(0.0001)
CAPINT	-0.1833***	-0.2638***	-0.2217***	-0.2733***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
INVIVT	-0.0219	0.1029***	0.0055	-0.1056***
	(0.4434)	(0.0000)	(0.8737)	(0.0033)
CASHHOLD	-0.1774***	-0.1217***	-0.1855***	-0.1123***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
ROA	0.1459***	0.1280***	0.1525***	0.1874***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
POWER5	-0.0138***	-0.0159***	0.0103***	0.0012
	(0.0000)	(0.0000)	(0.0000)	(0.7036)
BTENURECV			0.0013***	0.0006***
			(0.0000)	(0.0000)
POWER5xBTENURECV			-0.0004***	-0.0003***
			(0.0000)	(0.0000)
N	1645	1747	1614	1716
J	370	370	368	368
AR(1)	-7.1797	-7.8541	-7.1384***	-7.8647***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
AR(2)	-0.8487	-0.2869	-1.0225	-0.2256
	(0.3960)	(0.7742)	(0.3065)	(0.8215)
SARGAN	355.8472	339.3514	348.1263	339.7253
	(0.3185)	(0.5606)	(0.3689)	(0.4940)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes

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

using the fixed effects estimator. This means that having control in several dimensions at the same time strengthens CEOs' tax avoidance intentions, suggesting that they tend to prioritise profit maximisation through tax avoidance over social responsibility. This is in line with the theory of alignment effects and stewardship, which positions the CEO as the steward of the firm.

Models (3) and (4) report results for the moderating effects of board tenure diversity on ETRB and ETRC. In both models, the coefficients of the interaction terms of POWER5xBTENURECV are negative and strongly significant, indicating that, the more tenure-diverse the board, the more positive the effect of CEO power on tax avoidance. These findings suggest that a board with diverse tenures can serve as a robust governance tool, encouraging CEOs to adopt tax avoidance strategies that boost company profits. This supports hypothesis H2 that greater board tenure diversity can enhance the capacity of CEOs with multiple power dimensions to engage in tax avoidance practices. Obviously, the results are inconsistent with those reported in Section 4.4. This underscores the significance of mitigating potential endogeneity bias in panel regressions, as failing to do so can lead to inaccurate results and misleading conclusions (Ullah et al., 2018), making the results in this section more dependable.

Besides, the outcomes could be attributed to social identity theory, suggesting that board members' diverse tenures may lead to the formation of tenure-based social groups that could diminish the board's monitoring effectiveness, potentially enabling the CEO to pursue tax-saving strategies more easily as their power grows. Conversely, these results could also be explained by the alignment theory, which posits that tenure-diverse boards can reduce agency conflicts by appreciating the benefits of having both senior and junior directors who combine knowledge continuity with board independence (Li & Wahid, 2018). If directors' intentions align with profit maximisation, their support for tax-saving activities could facilitate the CEO's tax avoidance plan.

6. Summary and Conclusion

This study examines the relationship between CEO power and corporate tax avoidance and the moderating effects of board tenure diversity on the relationship in Malaysian listed companies from 2009 to 2019. The objectives are first realised through the fixed effects estimator. The first result shows that the accumulation of CEO power through multiple dimensions (CEO power index) is positively correlated with tax avoidance. The next result reflects that board tenure diversity does not moderate the connection between CEO power and tax avoidance. Given the potential endogeneity bias that could affect the results, the GMM estimator is used to re-run the tests. The results of the first test consistently show the positive relationship between CEO power and tax avoidance. However, the next test provides evidence in support of the moderating effects of board tenure diversity. It is found that board tenure diversity strengthens the positive connection between CEO power and tax avoidance.

The findings of this study have significant implications for both corporate governance and tax policy in Malaysian publicly listed firms. The positive relationship between CEO power and tax avoidance underscores the importance of effective governance mechanisms in shaping corporate tax strategies. In this context, boards

characterised by tenure diversity emerge as a crucial moderating force, potentially aligning CEO power with tax avoidance practices that boost firm profitability. Policy-makers and corporate leaders in Malaysia can draw upon these insights to cultivate governance structures that encourage responsible tax planning and transparency within the corporate sector. Moreover, the study's focus on Malaysian firms highlights the need for a nuanced approach to tax management. By considering the influence of CEO power and governance mechanisms, Malaysian companies can develop more informed tax strategies that optimise their tax obligations while ensuring compliance with regulations.

Future research can build upon this study by delving into the motivations behind CEO and director actions concerning tax avoidance. Investigating whether these intentions solely align with the firm's interests or encompass broader objectives could provide valuable insights. Understanding the underlying motivations can shed light on the ethical dimensions of tax strategies and help shape corporate governance practices to promote responsible tax planning. Exploring this aspect of tax avoidance can contribute to a more comprehensive understanding of corporate behaviour and governance mechanisms.

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