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Impact of Earnings Management on Corporate Tax Avoidance: The Moderating Role of Corporate Governance – Insights from Asian Markets

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Abstract

Purpose - This study aims to investigate how corporate governance moderates the relationship between earnings management and corporate tax avoidance.

Methodology - Data were collected from 620 non-financial companies in six Asian markets. A two-step generalized method of moments (GMM) approach was used to analyze the relationship between the variables.

Findings - The study reveals that higher levels of earnings management are associated with greater degrees of corporate tax avoidance. However, strong corporate governance practices, such as board independence and gender diversity, can mitigate this relationship, reducing corporate tax avoidance even in the presence of earnings management.

Implications - The findings have significant theoretical and practical implications for regulators, policymakers, and managers. They highlight the necessity of adapting tax regulations to account for the influence of corporate governance and earnings management. Additionally, the study underscores the importance of organizations enhancing their internal audit systems and regularly examining internal controls and procedures to ensure the accuracy and integrity of financial statements.

Originality/Value - This study provides novel insights into the relationship between earnings management, corporate governance, and corporate tax avoidance, particularly in Asian markets. It offers valuable recommendations for strengthening corporate governance practices and aligning them with effective tax regulatory models. This study contributes to the field of decision sciences by presenting a rigorous quantitative framework that allows regulators, investors, and corporate leaders to make informed decisions, particularly when dealing with corporate governance issues and tax regulations. The analysis of Asian markets shows how institutional factors such as legal traditions, cultural norms, and governance capability influence the efficacy of corporate control.

The study addresses a significant gap in the literature by focusing on Asian economies and using a thorough Corporate Governance Index (CGI) that represents the complexity of governance. Furthermore, the comparative analysis of industrialized and developing countries provides novel perspectives on how governance practices influence corporate performance in a range of economic issues.

Keywords: Tax Avoidance; Earnings Management; Corporate Governance; Asian Markets; Generalized Method of Moments.

JEL Classifications: G34; H26; L25

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