The current issue and full text archive of this journal is available on Emerald Insight at: https://www.emerald.com/insight/2042-1168.htm

The effect of board characteristics on tax aggressiveness: the case of listed entities in Sri Lanka

Mohamed Mihilar Shamil, Dulni Wanya Gooneratne and Dasitha Gunathilaka
Department of Commerce and Financial Management, Faculty of Commerce and Management Studies, University of Kelaniya, Kelaniya, Sri Lanka, and
Junaid M. Shaikh
UTB School of Business, University of Technology Brunei, Gadong, Brunei

Received 12 August 2022
Revised 22 March 2023
6 July 2023
Accepted 24 July 2023

Abstract

Purpose – This study examines the effect of board characteristics on the tax aggressiveness of listed companies on the Colombo Stock Exchange in Sri Lanka.

Design/methodology/approach – The sample consists of 264 firm-year observations of non-financial listed companies in Sri Lanka from 2014 to 2019. The dynamic panel system GMM technique was used to test the hypotheses, and further analyses were performed using the propensity score matching technique.

Findings – All four effective tax rate measures' mean values were lower than the statutory tax rate, indicating the likelihood of tax planning. Whether board attributes are likely to mitigate tax aggressiveness is uncertain because the results are inconsistent and depend on the ETR measure. Similarly, the logistic regression results derived using the PSM approach are inconsistent, suggesting that board characteristics may have a limited effect on tax aggressiveness. Hence, the corporate governance-tax aggressiveness nexus is limited in the case of Sri Lanka.

Research limitations/implications – This investigation is limited to non-financial listed companies in Sri Lanka and incorporates only four tax aggressiveness measures. Findings are imperative for policymakers, regulators, and professional bodies to improve corporate governance codes and rules to enhance organisational transparency toward corporate tax payments.

Social implications – Aggressive tax planning by companies will reduce government tax revenue, hinder social progress, and cause public mistrust of large corporations and institutions.

Originality/value – This study provides insight into the nexus between corporate governance and tax aggressiveness in a middle-income economy in South Asia hit by an economic crisis where tax revenue has fallen and tax enforcement is weak.

Keywords Board characteristics, Corporate governance, Dynamic panel, Effective tax rate, Propensity score, Tax aggressiveness

Paper type Research paper

1. Introduction

Studies investigating the link between corporate governance and tax aggressiveness have gradually flourished, drawing greater attention from scholars over the past decade (Boussaidi and Hamed-Sidhom, 2021; Wahab *et al.*, 2017; Halioui *et al.*, 2016; Lanis and Richardson, 2011; Richardson *et al.*, 2013). Corporate governance is defined as "the set of relationships between a company's management, board of directors, shareholders, and other stakeholders" (OECD, 2015, p. 9) and ensures that companies are accountable to all stakeholders while acting socially responsibly (Solomon, 2020). A firm's governance structure considerably affects its tax management (Minnick and Noga, 2010). The board of companies is accountable to its shareholders and the government, the main tax-collecting party, for revenue purposes and envisages only good practices towards the company. Thus,

Journal of Accounting in Emerging Economies
© Emerald Publishing Limited
2042-1168
DOI 10.1108/JAEE-08-2022-0224