CORPORATE GOVERNANCE, CORPORATE TAX AVOIDANCE, AND FIRM VALUE IN BANGLADESH: THE MODERATING ROLE OF AUDIT TIMELINESS

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UNIVERSITI SAINS MALAYSIA

2025

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by

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Thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

May 2025

ACKNOWLEDGEMENT

Alhamdulillah, all praise to Almighty Allah for His blessings, grace, and mercy granted to me throughout my PhD journey. My deep appreciation goes to my honorable PhD supervisor, Assoc. Prof. Dr. Fathyah Binti Hashim, Graduate School of Business, USM, for her encouragement, continuous guidance, valuable support throughout my study, and patient reviews, comments, and thoughtful suggestions in improving this thesis. May Allah offer her the best rewards for her efforts.

In addition, I would like to thank Assoc. Prof. Dr. Fathyah Binti Hashim, honorable Dean, GSB, USM, and all the academic and administrative staff of GSB, USM, for their constant willingness to support me throughout my studies. My sincere thanks also go to the USM library and IPS.

I want to extend my most profound appreciation to my spouse, beloved daughters Sairish Naira and Sherin Naisha, father, and siblings. Thanks to all of them for providing me with patience, encouragement, and moral support from the beginning to the end of my study. I would like to remember the memory of my mother, the late Ms. Rizia Parvin. I started my PhD journey with her blessings, but she is no longer there to bless me. Last but not least, I appreciate all those who allowed me to complete this research.

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ACI	Audit Committee Independence
ADTM	Audit Timeliness
BD	Bangladesh
BGD	Board Gender Diversity
BID	Board Independence
BMA	Board Meeting Attendance
BSEC	Bangladesh Securities and Exchange Commission
CGC	Corporate Governance Code
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility
CTA	Corporate Tax Avoidance
DSE	Dhaka Stock Exchange
ESG	Environmental, Social, and Governance
ETR	Effective Tax Rate
FEM	Fixed Effect Model
FSZ	Firm Size
FMV	Firm Value
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
MOWN	Managerial Ownership
NPV	Net Present Value
OLS	Ordinary Least Squares
REM	Random Effect Model
ROA	Return on Assets
ROE	Return on Equity
SRO	Statutory Regulatory Order
STR	Statutory Tax Rate
Tk.	Taka

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TADBIR URUS KORPORAT, PENGELAKAN CUKAI KORPORAT, DAN NILAI FIRMA DI BANGLADESH: KETEPATAN MASA AUDIT SEBAGAI PENYEDERHANA

ABSTRAK

Tujuan utama penyelidikan ini adalah untuk mengkaji sama ada tadbir urus korporat yang baik menyumbang kepada pengurangan pengelakan cukai korporat dan sama ada pengelakan cukai korporat (CTA) menyumbang kepada penurunan nilai firma dalam konteks ekonomi sedang pesat membangun seperti Bangladesh. Ia telah menggunakan set data panel 470 pemerhatian tahun firma yang dikumpul daripada 111 syarikat bukan kewangan yang disenaraikan di Bursa Saham Dhaka dari 2016 hingga 2020. Menggunakan kaedah regresi data panel yang sesuai, kajian mendapati bahawa kepelbagaian jantina lembaga mengurangkan CTA. Walau bagaimanapun, kehadiran mesyuarat lembaga, kebebasan jawatankuasa audit, kebebasan lembaga pengarah dan pemilikan pengurusan tidak menjejaskan CTA. Kajian juga mendapati bahawa pengelakan cukai korporat mengurangkan nilai firma. Paling penting, ia adalah antara kajian empirikal pertama yang mendapati ketepatan masa audit, sebagai moderator, mengurangkan kesan buruk CTA ke atas nilai firma. Kajian ini juga menggunakan beberapa siri ujian kekukuhan. Selain itu, kajian ini telah menilai tingkah laku pengelakan cukai korporat daripada teori agensi dan perspektif teori pihak berkepentingan dan bukannya pandangan tradisional strategi pengurangan beban cukai. Dalam kedudukan semasa, apabila CTA semakin meningkat secara beransur-ansur, dan nilai firma tersenarai di Bangladesh semakin merosot sejak beberapa tahun kebelakangan ini, kajian tersebut mendokumenkan bahawa tadbir urus korporat yang baik boleh merosot CTA, dan pengurangan dalam CTA boleh meningkatkan nilai firma. Oleh itu, dapatan kajian akan memberikan pengetahuan yang banyak kepada pelabur, pengurus, pengawal selia dan pengamal lain kerana mereka mempunyai implikasi

dasar untuk membuat keputusan secara kolaboratif. Secara khususnya, kajian ini boleh menyumbang kepada pemilihan mekanisme tadbir urus korporat yang baik untuk mengurangkan CTA dalam semakan kod tadbir urus korporat di Bangladesh pada masa hadapan. Pihak berkepentingan korporat akan dapat memahami bahawa dalam ekonomi sedang pesat membangun seperti Bangladesh, CTA akhirnya mengurangkan nilai firma.

CORPORATE GOVERNANCE, CORPORATE TAX AVOIDANCE, AND FIRM VALUE IN BANGLADESH: THE MODERATING ROLE OF AUDIT TIMELINESS

ABSTRACT

The primary purpose of this research is to examine whether good corporate governance contributes to reducing corporate tax avoidance and whether corporate tax avoidance (CTA) contributes to decreased firm value in the context of an emerging economy like Bangladesh. It has used a panel data set of 470 firm-year observations collected from 111 non-financial companies listed on the Dhaka Stock Exchange from 2016 to 2020. Using the appropriate panel data regression method, the study finds that board gender diversity reduces CTA. However, board meeting attendance, audit committee independence, board independence, and managerial ownership do not affect CTA. The study also finds that corporate tax avoidance reduces firm value. Most importantly, it is among the first empirical studies that find audit timeliness, as a moderator, reduces the adverse effect of CTA on firm value. The study also adopts a series of robustness tests. Moreover, the study has evaluated corporate tax avoidance behaviour from the agency theory and stakeholder theory perspective rather than the traditional view of tax burden-reducing strategy. In the current position, when the CTA is gradually increasing, and the value of listed firms in Bangladesh is gradually deteriorating over the recent years, the study documents that good corporate governance could decline CTA, and a reduction in CTA could enhance the firm value. Therefore, the study's findings will provide substantial knowledge to investors, managers, regulators, and other practitioners because they have policy implications for collaborative decision-

making. Specifically, the study could contribute to choosing good corporate governance mechanism(s) to reduce CTA in the future revision of corporate governance codes in Bangladesh. Corporate stakeholders will be able to understand that in an emerging economy like Bangladesh, CTA ultimately reduces firm value.

CHAPTER 1

INTRODUCTION

1.1 Introduction

The study on corporate tax avoidance has been increasing as new facets are added steadily due to the multifaceted character of the issue (Salhi et al., 2020). The concern in this field is that there is a lack of commonly acknowledged interpretation of the concept of tax avoidance (TA), and thus, tax avoidance is not the same object to everyone (Hanlon & Heitzman, 2010). However, tax avoidance denotes a company's deliberate work to decline its tax obligations using lawful or illegitimate techniques or approaches (Lee et al., 2015).

Furthermore, tax avoidance comprises tax planning deeds that are lawful, or that may fall into the grey zone and unlawful activities (Chen et al., 2010). Tax evasion is considered a defilement of the law. In contrast, TA is considered the usage of a legal vacuity, or in other words, the acknowledged exploitation of the law, while exemptions and enticements are not illegitimate (Jamei, 2017).

However, tax aggressiveness, tax planning, and tax evasion are the sub-perceptions of tax avoidance (Kovermann & Velte, 2019). Further, "Tax Planning", "Tax Avoidance", and "Tax Aggressiveness" have been used in a similar context in the current literature (Duhoon & Singh, 2023). Following Hanlon and Heitzman (2010) and Feng et al. (2019), the study does not make a distinction between lawful avoidance and unlawful evasion because the legitimacy of a tax avoidance action is often revealed ex-post (Cai & Liu, 2009).

Corporate tax avoidance refers to handling lesser taxable income through tax-aggressive activities and, thus, covers legitimate and illegitimate actions that are not in line with the essence of the law (Lanis & Richardson, 2011). Besides, corporate tax avoidance is widely recognized as anything that lessens a company's taxes to pre-tax profits (Dyreng et al., 2010). This concept captures a wide span of TA actions, irrespective of whether they could be deliberated antagonistic or not, as well as whether the scope of the law contains them or consists of illegal activities (Kovermann & Velte, 2019). Moreover, since stakeholders are not acquainted with the cause of TA, they look at TA as similar to bad business ethics (Tanimura & Okamoto, 2013; Akhtar et al., 2019). Therefore, TA could be viewed as a bad practice.

The traditional understanding of corporate tax avoidance advocates that TA actions would enhance the company value, whereas the agency standpoint regarding corporate tax avoidance offers a more refined expectation (Chen et al., 2014). Agency theory views that managers adopt TA activities for their deceitful aims (Desai & Dharmapala, 2009a, 2009b; Wang et al., 2014). In addition, managers may take advantage of aggressiveness in taxes similar to a mask merely for the advantage of management (Kim et al., 2011; Luo & Wei, 2012; Luo & Du, 2014). Thus, corporate tax avoidance could harm firm value (FMV).

Moreover, when a business is considered to be explicitly keeping away from tax (e.g., Gilders et al., 2002), it is usually not deemed to be disbursing its ''fair share'' of company taxes to the government for ensuring the funding of public goods (Freedman, 2003; Friese et al., 2008). This deficit in corporate tax revenue creates a significant and potentially irretrievable loss to the public (Slemrod, 2004; Williams, 2007).

Accordingly, more publicly accountable companies are less expected to be involved with corporate tax avoidance as a corporation involved in corporate social activities also considers its tax policy stand (Lanis & Richardson, 2012). In practice, corporate tax avoidance lessens the government revenue used for the well-being of common people; thus, socially responsible corporations might avoid corporate TA activities (Bird & Davis-Nozemack, 2018).

Good governance safeguards the well-being of the investors, confirming the split-up of decision management and control in a business. Good corporate governance (CG) is founded on professional moralities in business, as well as an understanding that good CG is a form of recognition in a set of guidelines or to regulate relations, tasks, and the interests of the different parties in the company (Tandean & Winnie, 2016). Therefore, corporate governance settings interact to outline corporations' tax reporting and conduct of tax avoidance (Desai & Dharmapala, 2006).

Good governance tends to decrease the extent of tax avoidance, in line with a harmonising association between managerial distraction and tax avoidance (Desai & Dharmapala, 2006). Furthermore, this adverse impact is driven mainly by companies with comparatively feeble governance processes (Desai & Dharmapala, 2006). Thus, in weak governance, managers can undertake tax avoidance actions to achieve their benefits from the cash outflow saved by tax avoidance actions.

Moreover, consistent with the agency theory standpoint, CG is negatively allied to CTA (Salhi et al., 2020). Similarly, Richardson et al. (2016b) and Bayar et al. (2018) have found a negative connection between superior CG and CTA. However, Kiesewetter and Manthey (2017) and Chytis et al. (2018) have found a positive relationship between CG attributes and tax avoidance. Thus, the connection between CG and tax avoidance is an inconclusive issue to academicians and practitioners till now.

The government seeks to raise its tax revenues. Thus, the significance of research linked to tax and elements influencing tax revenues is more obvious for the related regulatory bodies (Mashaiekhi & Seyyedi, 2015). Good CG lessens information unevenness, thus lessening CTA irrespective of the foundation of a country's legal system (Salhi et al., 2020). In the context of agency theory, reducing information asymmetry might reduce agency conflicts and managerial opportunism and, thus, corporate tax avoidance.

1.2 Background of the Study

The arrangement of civic facilities, in addition to infrastructure, is crucial for financial progress and development. However, many emerging nations fail to amass the tax revenue to finance their public sectors (Fuest & Riedel, 2009). The deficiency in collecting the needed tax revenue is accused of TA (Kadir, 2018) since corporate tax avoidance reduces government tax revenue collection.

Consequently, CTA is the most problematic concern since it causes a significant loss of income for the governments of numerous developed and emerging countries (Hundal, 2011). Developing economies are threatened with social, political, and administrative complications when initiating a complete public finance setup. Therefore, emerging and progressing economies are mainly susceptible to tax avoidance actions of businesses and personal taxpayers (Kadir, 2018).

Fiscal policy plays an essential role in an economy's financial advancement. Moreover, developing economies are more dependent on tax revenues as they have fewer strong establishments and sources of finance (Jenkins & Newell, 2013). Tax revenue is a foundation for constructing the government budget and the long-standing development preparation of an emergent economy like Bangladesh.

The key basis of governmental revenue is tax revenues, and the government conducts a maximum of the public well-being deeds as of the tax revenue. Thus, when corporations avoid tax, it will impact the societal well-being actions to be commenced by the government. Companies are responsible for conforming to society's ethical and public demands. Tax revenue plays an important part in the functioning of the government and society, and thus, tax avoidance is evaluated as socially irresponsible conduct (Bird & Davis-Nozemack, 2018).

From the agency theory perspective, good corporate governance restricts managerial exploitation, so managers might be discouraged from TA. Thus, good governance influences corporate managers to avoid tax avoidance and thus reduces tax avoidance actions as a means of managerial rent-seeking activities, which in turn enhances firm value.

Good CG depends mainly on balance among incompatible interest clusters, such as government, society, shareholders, lenders, and the institution's workforce (Rouf & Akhtaruddin, 2020). However, the capital market that eases good governance through the level of dissemination of information remains feeble in Bangladesh, and corporations have little encouragement to list on the bourse (Rouf & Akhtaruddin, 2020).

As corruption has swelled in all the segments of Bangladesh and there are low moral or ethical values in business practice, the regulators should follow strict CG standards (Rouf & Akhtaruddin, 2020). Thus, from the agency theory standpoint, in the setting of Bangladesh, where good governance is absent (Rouf & Akhtaruddin, 2020), tax avoidance may adversely affect firm value because corporate managers may use tax avoidance policy to extract their interests and not for the well-being of shareholders (Desai & Dharmapala, 2006).

In weakly governed companies, managers tend to tax avoidance since to gain personal benefits, tax avoidance actions are easy in these companies. Thus, weakly governed companies are more tax-aggressive (Desai & Dharmapala, 2006). Inversely, in good-governed companies, managers have a tiny scope to distract the tax avoidance benefits as their benefits.

Well-governed companies provide less scope for managerial diversion than weakly governed companies (Desai & Dharmapala, 2006). Therefore, CG attributes might persuade TA. Accordingly, extant tax research has emphasised the influence of board features on CTA (Richardson et al., 2016b; Lanis et al., 2019); however, their findings are inconclusive.

Though tax avoidance actions provide earnings and real cash flow benefits to the company, they may also incur related costs greater than these benefits. These potential costs consist of the resultant agency costs from enhanced information asymmetry and managerial opacity, along with the potential for greater compliance costs due to an enhanced likelihood of tax audits, amended tax assessments, and litigation (Ying et al., 2017).

Moreover, the current income and cash flow benefits from tax avoidance may offset the costs in the upcoming accounting period. Besides, the company's value may be affected when managers aggressively pursue tax avoidance activities to attain personal benefits instead of investors’ interests by gaining from information asymmetry (Ying et al., 2017).

However, wide affirmative book-tax differences (BTDs) and wide adverse BTDs provide lower confidence in reported earnings (Joos et al., 2000; Hanlon, 2005). When auditors consider the information revealed in book-tax differences when evaluating the authenticity of reported earnings, large book-tax differences are supposed to indicate the need for auditors to employ more work (more hours or involving more specialists) compared with firms with lesser book-tax differences if other things remain constant (Hanlon & Krishnan, 2006).

Further, the timeliness of financial reporting is considered an important factor in emerging economies, where the audited financial statements (FSs) within the annual report (AR) exist as the single dependable basis of information accessible to users of information (Azubike & Aggreh, 2014). Auditors indirectly lessen companies' capabilities and motivations to avoid tax as big BTDs might be a possible red flag that raises the chance of spotting by the tax authorities (Hanlon, 2005).

Companies involved in aggressive tax behaviour could have a greater possibility of misrepresentations and reaffirmation as managers may utilise several accounts, for instance, valuation allowances, tax eventuality reserves, and estimations of accrued taxes, for altering incomes (Gupta & Lynch, 2015; Hanlon & Heitzman, 2010). Furthermore, Soltani (2002) documented that firms that are given qualified audit opinions tend to hold up in disclosing their financial report, and firms with bad news might take more time to report than firms with good news.

Indeed, investors in developing markets trust deeply in companies' FSs, and shareholders and regulatory authorities require an understanding of the reasons for audit lag (Alfraih, 2016). Nevertheless, most studies on audit delay have concentrated on developed economies, whereas tiny attention has been given to developing economies (Alfraih, 2016). It is believed that audit lag is one of the critical concerns in developing capital markets, wherever audited FSs are the single dependable source of information obtainable to shareholders (Leventis et al., 2005).

In summary, managers of poorly governed firms might prefer to avoid tax for their easy access to personal benefits, reducing their value. Conversely, good governance could limit the opportunistic benefits of managers from tax avoidance actions. Therefore, good governance reduces managers' motivation for TA initiatives (Desai & Dharmapala, 2009a). This study investigates the influence of corporate governance on CTA, the influence of CTA on FMV, and the moderating impact of audit timeliness on the association between CTA and FMV.

1.3 An Overview of the Corporate Governance Code in Bangladesh

In Bangladesh, the Securities and Exchange Commission first issued the Corporate Governance Guidelines (CGG) on the ‘comply or explain’ basis via a notification on February 20, 2006 (BSEC, 2021). This is the start of a separate guideline on CG for listed companies in Bangladesh.

The CGG of 2006 was substituted by a new notification on August 7, 2012 (BSEC, 2021). This CGG of 2012 was conditional on mandatory compliance instead of a “comply or explain” basis. The CGG of 2012 was revised by a new notification on July 21, 2013, to impose one constraint on involving external/statutory auditors to carry out audit/certification services in obedience to corporate governance. Afterwards, CGG's compliance was made mandatory in case of a rights issue as of August 8, 2013, and for the initial public offering (IPO) as of December 28, 2015.

However, the current Corporate Governance Code (CGC) was provided on June 3, 2018 (BSEC, 2021). The 2018 CGC has been delivered as “Code” instead of “Guidelines” with the heading: “Corporate Governance Code”. This amendment enhances CG in the well-being of investors and the capital market. The Heads of the current CGC (2018) in Bangladesh are as follows (BSEC, 2021).

1. Board of Directors. (Same Head as 2013)
2. Governance of Board of Directors of Subsidiary Company. (Same Head as 2013)
3. Managing Director (MD) or Chief Executive Officer (CEO), Chief Financial Officer (CFO), Head of Internal Audit and Compliance (HIAC) and Company Secretary (CS). (Same Head as 2013)
4. Board of Directors’ Committee. (Same Head as 2013)
5. Audit Committee. (Same Head as 2013)
6. Nomination and Remuneration Committee (NRC). (New Head included in 2018)
7. External or Statutory Auditors. (Same Head as 2013)
8. Maintaining a website by the Company. (New Head included in 2018)
9. Reporting and Compliance of Corporate Governance. (Same Head as 2013)

In brief, the current CGC (2018) in Bangladesh is discussed below.

The total number of members of a company’s Board of Directors (BODs) will not be below 5 (five) and over 20 (twenty) (BSEC, 2021). However, at minimum, one-fifth (1/5) of the total number of directors on a company’s Board will be independent directors; any fraction will be reflected in the next integer or complete number for computing the number of independent director(s). In addition, the positions of the Chair of the Board and the Managing Director and/or Chief Executive Officer of the company shall be occupied by different individuals. The Chair of the Board will be elected from amongst the company's non-executive directors.

Moreover, the Board of a company shall comprise the total number of Board meetings that occurred during the year and attendance by every director as a supplementary statement or disclosure within the Directors’ Report (BSEC, 2021). In Bangladesh's current CGC (2018), the company must hold no minimum number of meetings. However, the Directors’ Report shall contain the total number of Board meetings during the year, along with attendance by every director as an added statement or disclosure.

Besides, the configuration of shareholding shall be disclosed to notify the total number of shares owned by the Directors, the Chief Executive Officer, the Company Secretary, the Chief Financial Officer, the Head of Internal Audit, their spouses, and minor children (name-wise details), and the company's executives (BSEC, 2021).

A company shall have an Audit Committee (AC) as a subcommittee of the Board to confirm good governance (BSEC, 2021). The AC shall help the Board guarantee that the financial statements reveal a true and fair view of the company's state of affairs and guarantee a good monitoring system inside the business. The AC shall be comprised of no less than 3 (three) members. Moreover, the AC shall consist of a minimum of 1 (one) independent director (ID).

The Board shall choose 1 (one) member of the AC and designate the chairperson, who will be an independent director (BSEC, 2021). All members of the AC ought to be “financially literate,” and at least 1 (one) member shall have an accounting or relevant financial management background and 10 (ten) years of such experience.

The term “financially literate” represents the capability to read and understand financial statements, such as statements of financial position, statements of comprehensive income, statements of changes in equity, and cash flow statements. A person will be believed to have accounting or relevant financial management skills if he or she has a professional qualification or is an Accounting or Finance graduate with at least 10 (ten) years of company management or professional experience (BSEC, 2021).

The company shall have a Nomination and Remuneration Committee as a subcommittee of the Board (BSEC, 2021). Besides, the issuer company shall not involve its external or statutory auditors in any service that generates a conflict of interest. According to the notification of BSEC on August 18, 2013, the issuer company denotes the issuer of a listed security, i.e., the companies listed with any stock exchange in Bangladesh.

The company shall have an official website connected with the stock exchange's website (BSEC, 2021). Furthermore, the company shall acquire a certificate from a practising Professional Accountant or Chartered Secretary, except for its statutory auditors or audit firm, every year relating to compliance with the conditions of CGC of the Commission, and such certificate shall be revealed in the Annual Report.

1.4 An Overview of Corporate Taxation in Bangladesh

Except for banks, leasing and insurance companies, mobile phone companies, and cigarette manufacturers, tax rates for publicly traded companies and non-publicly traded companies have continued at 25% and 35%, respectively, since financial year (FY) 2014-15 (Budget Speech, 2020-2021).

To ease the tax burden of respected taxpayers during the acute COVID-19 pandemic, the Honourable Minister, Ministry of Finance, Bangladesh, proposed a

2.5% lessening in the tax rate of non-publicly traded companies to 32.5% from 35%. Non-publicly traded companies are not listed on any stock exchange in Bangladesh (Income Tax Paripatra, 2020-2021, National Board of Revenue, Bangladesh).

At present, ready-made garments (RMG) factories with green building certification benefit from a special tax rate of 10%, while RMG factories without such documentation pay taxes at a rate of 12%. The Honourable Finance Minister expects this tax rate to greatly help taxpayers in Bangladesh's RMG sector (Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh, 2020).

According to the Income Tax Paripatra, 2020-2021, National Board of Revenue, Bangladesh, Table 1.1 presents the company tax rate for the assessment year 2020-2021 of Bangladesh.

Table 1.1

Company Tax Rate for the Assessment Year 2020-2021 of Bangladesh

Type of Company	Tax Rate
Non-publicly Traded Company (Not Listed with Stock Exchange(s))	32.5%
(Due to the COVID-19 pandemic, a 2.5 percent reduction in the tax rate to fix it at 32.5% from that of 35%)	
Publicly Traded Company (Listed with Stock Exchange(s))	25%
Bank, Insurance, Financial Institutions (Excluding Merchant Bank):	
Publicly Traded	37.5%
Non-publicly Traded	40%
Merchant Bank	37.5%
Cigarette, Zarda, Bidi, Gul or any other Tobacco Product Manufacturing Companies	45%
Mobile Phone Operator Companies	
Mobile Phone Operator Companies – Publicly Traded	40%
Mobile Phone Operator Companies – Non-publicly Traded	45%

Source: Income Tax Paripatra, 2020-2021, National Board of Revenue, Bangladesh

A publicly listed bank or a non-bank financial institution (NBFI) must pay 37.5% corporate tax, which is 40% for non-listed banks. The tax rate for publicly listed mobile companies is 40%, while it is 45% for non-publicly listed mobile network operators (Dhaka Tribune, 2020b).

1.5 Development of Capital Market Institutions in Bangladesh

In Bangladesh, there are two stock exchanges: the Dhaka Stock Exchange (DSE), formed in 1954, where trading is performed by a computerised automated trading system, and the Chittagong Stock Exchange (CSE), formed in 1995, which is also performed by a computerised automated trading system (BSEC, 2020b). All stock exchanges are self-regulated, private sector bodies that must have their operational rules agreed upon by the Bangladesh Securities and Exchange Commission (BSEC). Each Stock Exchange institutes listing prerequisites; approves, suspends, or eliminates listing rights of companies; observes listed companies conforming to legal and regulatory provisions; and allows dual listing.

The BSEC was established on June 8, 1993, as the regulator of the country's capital market under the provision of the Bangladesh Securities and Exchange Commission Act 1993 (BSEC, 2020a). The Commission aims to safeguard the interest of investors in securities, advance the securities market, and generate rules for matters associated therewith or ancillary thereto. The Commission comprises the Chairman and four Commissioners appointed full-time by the government. The Chairman acts as the Chief Executive of the Commission. The Commission is a statutory body connected to the Ministry of Finance. BSEC has been an 'A' category member of the International Organization of Securities Commissions (IOSCO) since December 22, 2013.

The government first acknowledged the need to form a stock exchange in formerly East Pakistan in early 1952 when it was revealed that the Calcutta Stock Exchange had forbidden trading Pakistani shares and securities (Dhaka Stock Exchange Ltd., 2020b). The Provincial Industrial Advisory Council of Pakistan quickly formed an organising committee to establish a stock exchange in East Pakistan. A crucial step was taken in the second meeting of the organising committee that occurred on March 13, 1953. The central government's suggestion about opening a branch of the Karachi Stock Exchange at Dhaka did not get support from the meeting, which noticed that East Pakistan must have an independent stock exchange.

The Exchange site was supposed to be either Dhaka, Narayanganj, or Chittagong (Dhaka Stock Exchange Ltd., 2020b). It was proposed that the Dacca Narayanganj Chamber of Commerce & Industry approach its members to buy membership cards at Rupees (RS.) 2000 apiece for the intended Stock Exchange. An organising committee was formed to organise the exchange, consisting of the province's foremost commercial and industrial personalities, including Mirza Mehdi Ispahani as the convener.

The East Pakistan Stock Exchange Association Limited was established on April 28, 1954 (Dhaka Stock Exchange Ltd., 2020b). As a public limited company, the name was changed to East Pakistan Stock Exchange Ltd. on June 23, 1962. Further, in May 1964, the name of East Pakistan Stock Exchange Limited was altered to "Dacca Stock Exchange Ltd.".

Currently, 609 companies are listed on the Dhaka Stock Exchange Ltd. under 22 industries (Dhaka Stock Exchange Ltd., 2021). Dhaka Stock Exchange Ltd.:

- Incorporated as East Pakistan Stock Exchange Association Ltd.: April 28, 1954
- Start of Formal Trading: 1956
- Renamed as East Pakistan Stock Exchange Ltd.: June 23, 1962
- Renamed as Dacca Stock Exchange Ltd.: May 13, 1964

(Dhaka Stock Exchange Ltd., 2020a)

Chittagong Stock Exchange initiated its journey on October 10, 1995, from the port city of Chittagong with the potential to construct a state-of-the-art bourse in the country, as well as the first bourse to begin an online trading system in Bangladesh (Chittagong Stock Exchange Ltd., 2020a). Founder members of the suggested Chittagong Stock Exchange made a conversation with the Bangladesh government in January 1995. They attained the approval of the BSEC on February 12, 1995, for founding the country's 2nd stock exchange (Chittagong Stock Exchange Ltd., 2020b).

The Exchange consisted of 12 Board members, chaired by Mr. Amir Khosru Mahmud Chowdhury (MP), and operated by an independent secretariat as of the very first day of its beginning (Chittagong Stock Exchange Ltd., 2020b). CSE was officially opened by then Hon'ble Prime Minister of Bangladesh on November 4, 1995. Currently, 348 companies are listed on Chittagong Stock Exchange Ltd. under 19 industries (Chittagong Stock Exchange Ltd., 2021), and they are also listed on Dhaka Stock Exchange Ltd. (Dhaka Stock Exchange Ltd., 2021).

1.6 Problem Statement

In Bangladesh, the tax revenue receipts as a proportion of gross domestic product (GDP) were 10.28% for the financial year 2016-17 (Bangladesh Economic

Review, 2018), while the average proportion of tax revenue to GDP over the world was 15.13% in the year 2017 (The World Bank, 2020). Further, development is hindered in Bangladesh due to lesser revenue assemblage, which might result from the high propensity of TA and evasion from individual taxpayers and business institutions (Shakila, 2019). Corporate tax avoidance decreases the government's tax revenue collection, hence hampers development activities.

Moreover, revelations, such as the Panama Papers, Luxembourg leaks, HSBC leaks, and the Paradise Papers, demonstrate that companies are at the forefront of worldwide TA (Sikka, 2018). It is globally accepted that tax avoidance menaces government revenue (Koay & Sapiei, 2025). For instance, governments worldwide have coordinated efforts with the help of the OECD and the G20 to advance the coordination of international tax rules for limiting corporate tax avoidance (OECD, 2021a, 2021b).

After executing an audit on Grameenphone (GP) (Listed on DSE and CSE), a front-runner in Bangladesh’s telecom service sector, the Bangladesh Telecommunication Regulatory Commission (BTRC) claimed Tk. (Taka) 125.80 billion in 2016 from the mobile phone operator in taxes and late fees accrued over the years (Dhaka Tribune, 2020c). However, GP refused to pay to question the BTRC’s audit process. Consequently, the telecom operator moved to the lower court for a temporary injunction on the BTRC’s claim, but GP did not get it. Afterwards, GP moved to the High Court with the same plea (seeking a temporary ban on the BTRC’s claim) (The Business Standard, 2020).

A High Court bench issued a 2-month injunction contrary to the BTRC move; however, later, the BTRC appealed to the Appellate Division in search of a stay order on the injunction and won the legal fight (The Business Standard, 2020). On

November 24, 2019, the Appellate Division ordered GP to pay Tk. 20 billion of the Tk. 125.80 billion dues within 3 months (Dhaka Tribune, 2020c). The telecom's head of External Communications confirmed that GP reached the decision just a day after the apex court ordered the country's foremost telecom operator to pay the amount to BTRC. He also added that GP admires the legal system of Bangladesh and would comply with the ruling of the Supreme Court (Dhaka Tribune, 2020c).

Further, according to the Global Financial Integrity (GFI) group, avoiding taxes or tariffs is the most important incentive for misinvoicing trade goods (LexisNexis, 2020). Likewise, according to the Global Financial Integrity (GFI) group, false trade invoicing alone cost Bangladesh an average of USD ($) 7.53 billion a year from 2008 through 2017, which represents nearly 18% of the foreign trade of Bangladesh (NIKKEI Asia, 2021).

GFI believes trade misinvoicing is a deep-rooted method of hiding illegal financial flows surrounded by the international commercial trade system and avoiding and/or taking advantage of customs regimes (LexisNexis, 2020). The GFI report signals that trade misinvoicing continues to drain local tax bases in emerging countries (LexisNexis, 2020). Thus, tax avoidance through misinvoicing trade goods is also an issue in Bangladesh.

In addition, the budget deficit for the fiscal year 2018-2019 was projected at Tk. 1252.93 billion (Budget Speech, 2019-2020). However, the deficit in the revised budget has been fixed at Tk. 1259.29 billion, which is 5% of GDP. In Bangladesh, there is disrepute in the revenue performance, i.e., the ratio of national revenue collection to GDP is lower than that of other countries. The government is determined to raise the percentage from 10% (in 2019) to 14% in the next 2 years

(Budget Speech, 2019-2020). The ratio of national revenue collection to GDP can be raised by limiting corporate tax avoidance actions and may reduce the budget deficit.

Nevertheless, in Bangladesh, the extent of tax loss is Tk. 842 billion, specifically 30.20 percent of the economy (Moazzem et al., 2023). Further, due to the low tax-to-GDP proportion (7.5%), Bangladesh cannot invest sufficiently in vital societal sectors, such as health, education, and societal safeguards (The Daily Star, 2024).

The Financial Express (2024), a widely circulated national daily, reported that "An investigation by the Central Intelligence Cell (CIC) in the revenue sector has uncovered that Summit Group has evaded payment of Tk. 11.12 billion in taxes in the single-largest case of tax-dodging in Bangladesh, officials say", though Summit claims 'We have never evaded tax' (The Financial Express, 2024). In fact, in emerging economies like Bangladesh, where more than 80% of government revenue is gathered from tax, the social and economic effects and aftermaths of tax avoidance and evasion are vastly severe (Moazzem et al., 2023).

Though Bangladesh's national budget has exhibited a deficit balance for the past few years, the administration has failed to accumulate planned tax revenues from individual and organisational sources (Ministry of Finance, Bangladesh, 2020). The Bangladesh government attempts to overcome this imbalance between budgeted and collected tax revenues (Budget Speech, 2019-2020).

The Bangladesh government has decided to increase the revenue mobilisation target to 14.1% of GDP in the final year of the 7th 5-year plan, 2020 (Hossain, 2017). Tax revenue is the key source of finance for the Bangladesh government's public spending. Its primary source of income in the national budget is the tax revenues (approximately 90%) collected from individuals and organisations (Bangladesh National Budget, FY 2019-2020).

However, TA actions favour opportunistic managerial behaviour (Hanlon & Slemrod, 2009; Wilson, 2009; Chen et al., 2010; Wang et al., 2014). A substantial link exists between TA alterations (lessening) and the enhancement of governance practices (Huseynov et al., 2017). Thus, tax structures and the CG setting outline tax reporting in addition to the TA conduct of businesses. Furthermore, good governance also emphasises the market impact of a business decision (Desai & Dharmapala, 2006).

To restrain corporate tax avoidance behaviour in Bangladesh, the factors influencing CTA should be investigated. According to agency theory, managers can undertake tax avoidance strategies to fulfil their opportunistic intentions. However, good governance mechanisms might be useful to diminish the managers' agency conflicts and opportunistic behaviour. Given that, CG mechanisms could reduce CTA actions, especially in an emergent economy like Bangladesh, where there remains a dearth of good governance practices (Rouf & Akhtaruddin, 2020).

Therefore, this study expects that corporate governance attributes can contribute to explaining the CTA behaviour in an emergent economy similar to Bangladesh. Company characteristics are also associated with the level of TA actions. This research effort examines the influence of CG on CTA as it could benefit the Bangladeshi government in implementing its initiative to reduce the tax gap, upsurge compliance, and assemble additional revenue.

Nevertheless, stock price smashes have drawn the concentration of researchers and practitioners worldwide (Thai et al., 2025). Furthermore, Bangladesh’s bourse carried on its decline position, a negative growth during the year 2019, while stock markets in 5 other frontiers and emergent Asian economies (India, Pakistan, Vietnam, Thailand, and Sri Lanka) exhibited growth in the same period (Dhaka Tribune, 2020a). The prime bourse of Bangladesh, Dhaka Stock Exchange Ltd., recorded a negative index return, -17.3% in 2019 (The Financial Express, 2019).

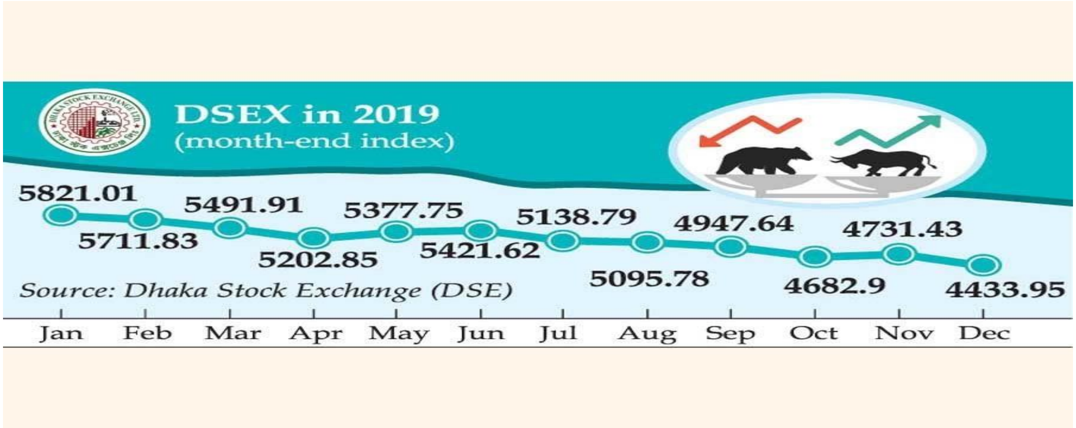

Figure 1.1. Movement of DSEX in the Year 2019

Source: The Financial Express (2019)

Further, the country's 2nd bourse, Chittagong Stock Exchange Limited (CSE), witnessed a negative index return of -17.9% in the year 2019; besides, in the year 2019, the total market capitalisation (MCAP) of CSE-listed companies declined by 14.8% as compared to the year 2018 (EBL Securities Ltd., 2019). Nevertheless, the return among the neighboring South Asian countries, such as the Indian key index, SENSEX, was 14.7%, followed by 10.7% of Pakistani KSE100, 8.1% of Vietnamese VNINDEX, 1% of Thai SET and 2.3% of Sri Lankan CSEALL over the same period (Dhaka Tribune, 2020a).

Besides the movement of DSEX (Dhaka Stock Exchange Broad Index) over the year 2019, as shown in Figure 1.1, Table 1.2 gives a comparative statement (Table and Graph over the years 2018 and 2019) to understand the sector-wise market performance of listed companies on DSE.

Table 1.2

Sector-wise Market Performance of Listed Companies on DSE

Particulars	2018	2019	Change (%)
Market Capitalisation Per Share of DSE Listed Companies (Tk.)	51.67	40.89	-20.87%
Total Market Capitalisation of Listed Companies (Tk. in Millions)	32,83,255.59	28,11,383.17	-14.37%
Market Capitalisation of Financial Sector Companies (Tk. in Millions)	8,77,745.36	7,97,601.02	-9.13%
Market Capitalisation of Manufacturing Sector Companies (Tk. in Millions)	12,97,492.71	10,73,362.71	-17.27%
Market Capitalisation of Service and Miscellaneous (Apart from Mutual Funds) Sector Companies (Tk. in Millions)	11,08,017.52	9,40,419.44	-15.13%

Source: Dhaka Stock Exchange Ltd. (2020c)

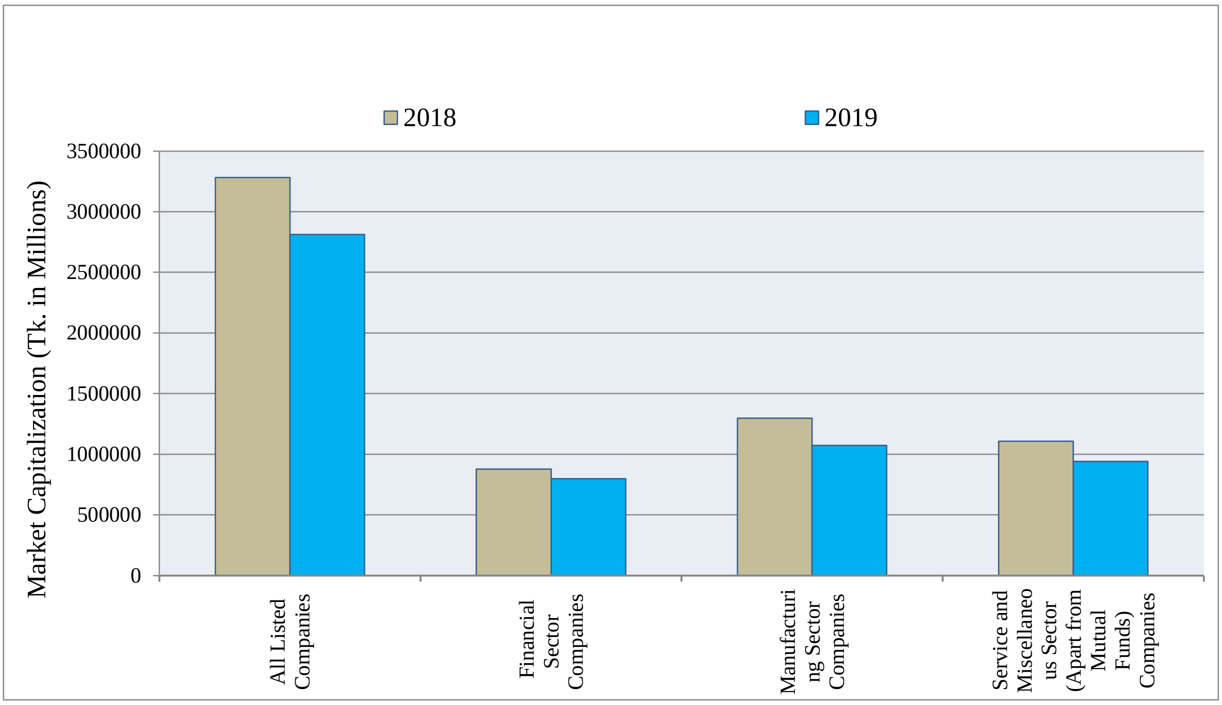

Figure 1.2. Sector-wise Market Performance of Listed Companies on DSE

Source: Dhaka Stock Exchange Ltd. (2020c)

Table 1.2 and Figure 1.2 shows that in 2019, the total market capitalisation of listed companies on DSE declined by -14.37% over the year 2018; in particular, the market capitalisation of financial sector companies has reduced by -9.13%, manufacturing sector companies have reduced by -17.27%, and service and miscellaneous (excluding mutual funds) sector companies have reduced by -15.13%. Moreover, the market capitalisation per share of listed companies on DSE was reduced by 20.87% in 2019 compared to 2018.

Therefore, the market performance of the listed companies on DSE dropped significantly in 2019 compared to 2018. However, market capitalisation is computed by multiplying a firm's outstanding shares by the existing market price of one share, and it is an important proxy to calculate the value of a firm (Harun et al., 2020).

Further, firm value signifies investors' assessment of the extent of success of a firm, and that is generally connected to share prices (Djashan, 2019). In agency theory, agency costs may reduce firm value, and corporate tax avoidance actions may enhance agency problems by increasing information asymmetry and managerial rent-seeking activities. Accordingly, tax avoidance activities enhance the information asymmetry between the managers and investors of a firm (Feng et al., 2019). Besides, when information about tax avoidance becomes publicly available, a company faces an adverse market reaction (Chen et al., 2016). Hence, corporate tax avoidance actions might affect the firm value.

Based on agency theory, corporate TA is linked to managerial exploitation (Chen et al., 2010; Desai & Dharmapala, 2009a, 2009b; Wang et al., 2014). Furthermore, information asymmetries created by opaque tax avoidance activities might decrease the FMV (Desai et al., 2007; Wahab & Holland, 2012). Hence, if tax avoidance actions are too antagonistic or occur owing to managerial incentives involving creating and abusing information asymmetries to harm shareholders, it may lessen the firm value (Ying et al., 2017).

In a social context, corporate tax payment influences the funding of public goods (Friese et al., 2008). Thus, corporate tax avoidance behaviour might negatively impact society (Freedman, 2003; Slemrod, 2004; Landolf, 2006). Hence, corporate tax avoidance could be socially irresponsible (Erle, 2008; Schön, 2008). Moreover, investors react negatively whenever a firm discloses information about aggressive tax behaviour (Hanlon & Slemrod, 2009).

Corporate tax avoidance may influence the decision-making of agents and principals and impact other stakeholders, such as society, government, and potential investors. Stakeholder theory links the association between a corporation and its consumers, suppliers, workforces, stockholders, societies, and others interested in the business (Freeman, 1984). Consequently, from the agency theory and stakeholder theory perspective, this study expects that corporate tax avoidance can explain the declining trend of FMV of the listed companies in Bangladesh.

From the agency theory and stakeholder theory perspective, CTA is associated with FMV, and investors, managers, and other stakeholders have interest and policy implications regarding this connection. In addition, agency theory and stakeholder theory view that audit timeliness decreases information asymmetry and increases a firm's financial transparency to its stakeholders. Audit firms restrain managerial opportunism. Any symptom of managerial opportunism through earnings manipulation could create audit delay.

Consequently, audit delay might increase information asymmetry, agency conflicts, and mistrust among the business's insiders and outsiders. Conversely, audit timeliness could decrease information asymmetry and agency conflicts and boost stakeholders' confidence in the firm's financial transparency. Given that, this study expects that audit timeliness can moderate and contribute to reducing the negative impact of corporate TA on FMV. Thus, this study also examines the moderating effect of audit timeliness on the association between CTA and FMV.

In brief, this study investigates the connection between CG and CTA, CTA and FMV, and the moderating influence of audit timeliness on the connection between CTA and FMV. Consistent with agency theory and stakeholder theory, the salient intuition of this research is that in an emerging economy like Bangladesh, stock market index return and tax revenue collection could be upgraded by restraining corporate tax avoidance.

1.7 Research Objectives

The main focus of this study is on corporate tax avoidance. It investigates the determinants of CTA with an emphasis on CG mechanisms and the outcome of corporate TA on the value of a firm. Consistent with the agency theory view, existing literature as well as CGC in Bangladesh, the study presumes that board meeting attendance (BMA), audit committee independence (ACI), board independence (BID), board gender diversity (BGD), and managerial ownership (MOWN) are the most influential attributes that might impact CTA behaviour.

Further, CTA actions are connected to the interests of managers and shareholders and influence the interests of other stakeholders. Based on the agency theory and stakeholder theory explanation, CTA might have an association with firm value, and audit timeliness might impact the association between CTA and FMV. Accordingly, the moderating impact of audit timeliness on the association between CTA and firm value has been investigated. Specifically, this study aims to examine: