Asian Journal of Accounting and Governance ISSN2180-3838
e-ISSN2716-6060
(http://dx.doi.org/10.17576/AJAG-2023-19-01)

The Moderating Role of Corporate Governance on Tax Incentives and Real Investments

MOHAMAD FAIZUDDIN ALIMON, ANNA CHE AZMI & MOHD ZUKHAIRI MUSTAPHA

ABSTRACT

Tax incentives have extensively been employed to promote real investment in the manufacturing sector. This study unravels reservations about investment tax incentives and real investment's positive relationship with corporate governance moderation over the study period of 2001 to 2015. It is further supported that although specific investment tax incentives of PS and RA exhibit a positive relationship with real investment, ITA displays a negative relationship with real investment, and the interactions of corporate governance have consistent negative relationships with real investment. This study recommends the recognition of the importance of corporate governance as an integral part of investment tax incentives and real investment establishment.

Keywords: Corporate governance; real investment; investment incentives

INTRODUCTION

Malaysia intensively employs tax incentives to provide attractive tax advantages to investing companies. Learning from the experience of Puerto Rico, where the investment of foreign capital has been responsible for taking the country's economic growth to greater heights for decades, tax incentives also have driven the Malaysian economy to a peak. Later, however, incentives dragged the economy down due to synthetic investments without local means to be maintained in the form of real investment. Government always envisages sustainable economic growth. The use of investment tax incentives is adopted to establish a stock of capital investment, especially by attracting foreign capital and stimulating capital investment, particularly in manufacturing sectors. Building sustainable economic growth is vital because roughly every 10 years, economic crises emerge to reset the economy.

In addition, corporate governance structure has a significant influence on companies' investments. As tax competition to secure investment intensifies, sustainable economic growth established by a stock of capital investment may be at risk in the absence of effective investment tax incentives and the support of corporate governance. Moreover, in Malaysia, investment tax incentives such as Pioneer Status (PS), the Investment Tax Allowance (ITA) and Reinvestment Allowance (RA), are offered to all sectors of the economy to encourage real investment. Government adoption of investment tax incentives programs costs massive sums of future public funds in terms of forgone tax revenue to provide the tax privileges. These investment tax incentives are supposed to stimulate the formation of sufficient real investment.

Both investment tax incentives and corporate governance are equally important factors in establishing sustainable economic growth through real investment formation. Investment tax incentives promote real investment, whereas corporate governance regulates the overall investment strategies of firms in a highly competitive business environment. This scenario might be correlated with a lack of proper cost and post-implementation assessments to evaluate the effectiveness of Malaysian investment tax incentives (World Bank 2006). The investment tax incentives are highlighted as overly generous and complex: they may be ineffective when corporate governance is weak and in turn, quite costly. This trend warrants further investigation regarding whether investment tax incentives and corporate governance are effective in the formation of sustainable capital investment. Therefore, this study contributes to the body of literature (Abdi 2008; Maffini et al. 2016) by examining these two aspects together to measure its contribution to sustainable capital investment. The framework of this study draws elements from neoclassical theory of investment and agency theory.

The next section discusses the literature review and the development of the hypotheses. The methods section describes the methodology in this work. The results and discussion section is then presented, followed by a section on implications and conclusions.

BACKGROUND OF INVESTMENT INCENTIVES IN MALAYSIA

In Malaysia, investment tax incentive is mutually exclusive - a firm can only enjoy one of these three tax incentives at one time on consistent basis69. The three tax incentives are Pioneer Status (PS), Investment Tax Allowance (ITA) and Reinvestment Allowance (RA) specifically designed to promote investment (MIA 2015; MOF 2016). These investment tax incentives may cushion companies risk taking in real capital investment by lowering effective tax rate below standard tax rate. In term condition of qualification, for example in case of Pioneer Status

it is designed for companies engage in promoted activities or producing promoted products that enjoy the benefit of partial exemption for period of 5 years beginning from approved "production date". Meanwhile Investment Tax Allowance is designed to suit companies whose investment involve huge capital expenditures and require long payback periods. Reinvestment Allowance is designed to promote modernization, automation, expansion and diversification activities in manufacturing sectors ("Income Tax Act " 1967) for manufacturing companies. The three examples of specific tax incentives are likely to have different responses from companies. The study by World Bank (2006) mentioned that Malaysia tax incentives were comprehensive and overly generous; yet it is lacking appropriate assessment of its effectiveness. This study attempts to address this issue.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

INVESTMENT TAX INCENTIVES, CORPORATE GOVERNANCE AND REAL INVESTMENT

The study of investment tax incentives and real investment are conducted independently from those studies on corporate governance and real investment. Based on the former literature, investment tax incentives have positive relationship with investment engagement. Many studies, for example De Long et al. (1992), Kosztowniak (2013), Menshikov et al. (2015) found that investment is critical for economic growth. In another study, Abdi (2008) found evidence that machinery and equipment investment is vital for growth, especially for the manufacturing sector.

On the latter (i.e. corporate governance and real investments literature), there are various ways in which this is being researched. Blair (1995) urges companies to adopt a broader understanding of corporate governance than merely monitoring the management of companies and protecting minority shareholders and funding institutions. In a concentrated ownership environment, the controlling shareholders have dominant control compared to a scenario with widely dispersed ownership. This basic corporate governance structure of ownership provides the background perspective on how corporate governance has a significant role in protecting shareholders' interests in investments.

One of the important aspect of examining the relationship between corporate governance and investment tax incentives together is that this relationship exist at the level of private companies and not public companies. Corporate governance is not only good practice for public listed companies but also for private companies because it is a structure of processes and mechanisms regarding how companies are controlled and directed toward the accomplishment of objectives (Amran 2011; Rachagan & Satkunasingam 2009). Bøhren et al. (2007) confirm that increased governance quality is associated with higher investments, which is construed as a greater responsiveness to investment opportunities. Greater governance improves the efficiency of capital allocation, while lax governance leads to underinvestment. Obviously, all companies have some form of corporate governance that aligns shareholders and management interests. Therefore, non-public listed companies of all sizes are highly encouraged to adopt corporate governance practices.

THE MODERATING ROLE OF CORPORATE GOVERNANCE

To observe the relationship among corporate governance, investment tax incentives and real investment, this study hypothesise that corporate governance plays a moderating role. Studies such as Anderson and Reeb (2003) and Anderson et al. (2012) investigate the concentrated ownership in family companies. Family-founded companies perform better than non-family companies, suggesting that family ownership is an effective organisational structure (Anderson & Reeb 2003; Enriques & Volpin 2007). According to Nasrum (2013), an ownership structure including the owner who also functions as a manager has positive effect on investment decisions. Thus, family ownership is viewed as positive signal of growth potential.

In the Malaysian context, family-owned companies has 80% dominance (Loy 2010). Later study found that the relationship between director remuneration and performance within family-owned companies is found to be significantly positive (Jaafar et al. 2012) - the study that employed a panel of 537 companies for period of 2007 to 2009. Ownership structure that tend towards concentrated continuum always refer to family founded companies. Regardless of minority or majority shareholders, both interested in the profit maximisation and higher firm value. The conflict of minority and majority shareholders is due to issue of expropriation that weaken shareholders protection.

In this study, real investment is the best mechanism to accomplish profit maximisation and firm value; therefore, concentrated ownership structure by way of reputational concern of the controlling shareholders (Yoong et al. 2015) and the dynastying of the companies value. The reputational concern explains that controlling shareholders have greater incentives to ensure their reputational capital by reducing minority shareholders expropriation (Liew et al. 2015). The reduce in minority shareholder expropriation lower the agency problem thus lead to appropriate transition of companies value in the dynastying companies investment to the future heirs (Loy 2010).

There are studies that show that concentrated ownership has negative effect on investment. Study by Anderson et al. (2012) who explore the relationship between family ownership and corporate investment policy

find that family companies devote less capital to long-term investments than companies with diffuse ownership structures. Maher and Anderson (2012); Anderson (2012) and Block (2012) find that inverse relationship between concentrate ownership structure and commitment toward real investment. The inverse relationship according to Maher and Andersson (2002) - concentrated ownership structure can negatively lead RI as it brings low liquidity and reduced risk of diversification. Study by Anderson et al. (2012) found that family ownership structure allocates less capital on long term investment; while Block (2012) finds that family ownership decreases R&D investment intensity. Based on the second strand of arguments, this study expects that;

H_1: Concentrated ownership structure moderates negatively the relationship of Investment Tax Incentives and Real Investment

Director shareholding motivate directors to engage in real investment in order to maximise company value by engaging in long term strategic real investment despites viewed as expropriation of minority shareholders. According to Jensen and Meckling (1976) argue that as the managers' ownership increases the interests between shareholders and managers convergence. The higher managerial ownership reduces agency costs and hence increase companies performance. The argument logic was later supported by the studies of Morck et al. (1988); and McConnell and Servaes (1990) who find a significant relationship between managerial ownership and companies performance. In term of communication of information, directors have the key information on companies opportunities before it is available to public.

The harmonisation of shareholders interest and manager interest may lead to adverse effect to real investment in a way that director shareholding deters other from acquiring information; and skews the distribution of information asymmetry (Aboody & Lev 2000; Fishman & Hagerty 1992). In addition the negative direction may be explained by entrenchment effect view where positive relationship between the managers by way of equity holding lowers the companies value suggested that managerial ownership can lead managers to pursue their personal goals at the expense of other shareholders (Shleifer & Vishny 1989). According to Pattanayak (2008), entrenchment effect is operative in medium range of insider shareholding - when family shareholding or insider shareholding is not substantial, entrenchment is low, as stake increases and in the range of 20% to 49%, the force of market mechanism becomes weak and allow the insiders to divert resources to the entity. Meanwhile being shareholder and director are common among non-listed companies, director shareholding provide full discretionary power to direct real investment. In addition, the application of director shareholding along the continuum of concentrated and diffused ownership extreme witnesses may resulted in unfavourable effects in performance of companies and institutional process of corporate governance, this study expects the following hypothesis:

H_2: Directors' shareholding negatively moderates the relationship of investment tax incentives and real investment

Regarding investment decisions, the directors' compensation structure, which is tied to the riskiness of the company's investment strategy, can offer stock options as part of the compensation, thereby increasing the aggressiveness of the investment strategy and corporate policies (Boumosleh 2012). Some studies have shown that offering stock options as a part of directors' compensation is a worthwhile value enhancement for companies (Magnan et al. 2010).

Director remuneration may lead to unfavourable company performance in several ways. First, excessive director compensation exacerbates agency problems, leading to entrenched CEOs (Dah & Frye 2017). Deteriorating agency problems may hinder real investments, hence jeopardising profitability. Second, director remuneration that does not support company performance goes against good corporate governance practice. Excessive or underpayment of director remuneration may lead to lower company performance (Brick et al. 2006),[1] which directly reflects firms' investments as director remuneration is a component of corporate governance that might reflect companies' optimal stock of capital. A study by Gregg et al. (1993) indicates that the high growth of director remuneration is weakly linked to company performance, which might imply inadequate real investment. This study expects that:

H_3: Director remuneration negatively moderates the relationship between investment tax incentives and real investment

A study by Francis and Yu (2009) offers evidence that the Big Four auditors provide higher quality audits based on a sample of 6,568 US company-year observations for the period 2003 to 2005, which is audited by 285 unique Big Four offices. Francis and Yu's results are consistent with the theory that larger offices provide higher-quality audits (Missaoui & Ghodbane 2016). Specifically, larger offices are more likely to issue going-concern audit reports, and clients in larger offices evidence less aggressive earnings management behaviour (Francis & Yu 2009). These findings are robust to extensive controls for client risk factors and other auditor characteristics. In a survey of 300 credit and financial analysts, Al-Ajmi (2009) considered that auditors' opinions were useful

for the credibility of financial statements. A conventional view is that an audit's quality is likely to be a function of the size of the auditing company (Alrshah 2015).

In Malaysia, the impact of the Asian Financial Crisis on government subsidies to politically favoured companies revealed that they accounted for a 9% loss in stock value during the initial phase of the crisis. After the crisis, 16% of the value of connected companies can be attributed to political connections (Claessens & Fan 2002). The appointment of external auditors has increased the level of governance since the crisis, which has increased investor confidence, enabling Malaysia to regain speedy recovery from the impact. Based on previous studies assessing external auditor engagements, it is predicted that:

H_4: External Audit Engagement moderates positively the relationship of Investment Tax Incentives and Real Investment

METHOD

This study design has seven features. First, this study is based on the common goal of investment tax incentives and corporate governance, namely profit maximisation from the establishment of real investment. Our approach harmonises investment tax incentives and corporate governance towards real investment. This analysis differs from previous studies separately examining investment tax incentives and corporate governance. Moreover, our approach recognises them as complementary factors stimulating the formation of sustainable real investment.

Second, two theories are employed, namely, (1) the neoclassical theory of investment, which justifies one of the factors for maximising company profitability by way of investment tax incentives. This theory has been demonstrated in series of studies indicating that investment tax incentives are the most popular fiscal policy undertaken by governments to propel real investment toward achieving sustainable economic growth. (2) Agency theory is used to explain the conflict between majority and minority shareholders and the significance of maintaining sound corporate governance in pursuing profit maximisation. Both theories have unique explanations to share the common objective of profit maximisation, particularly via real investment.

Third, this study design focuses specifically on the manufacturing sector, which received significant benefits from investment tax incentives at least over last two decades in a series of industrial and economic master plans in Malaysia. This government fiscal measure is likely to continue in the coming Industrial Revolution 4.0 (MITI 2006). The design incorporates the corporate governance factor as a complement to investment tax incentives for establishing sustainable real investment. The combination of tax incentives and corporate governance enables this study to capture the effects of the fiscal measure and the soundness of companies' internal monitoring functions to ensure the sustainable real investment objective is a success.

Fourth, this study is performs descriptive, bivariate, multivariate and regression analysis on balanced panel data. All the analyses are performed using Stata SE12 software. Fifth, the study performs aggregate analysis on the real investment relationship, investment tax incentives and corporate governance. Additionally, robustness tests are conducted on components of investment tax incentives, namely PS, ITA and RA, towards their respective real investments and corporate governance factors. Sixth, this study covers a 15-year period of general or aggregate analysis from 2001 to 2015.

Lastly, this study covers manufacturing companies with paid-up capital of RM2.5 million and above. This threshold is used because companies with paid-up capital below RM2.5 million do not benefit from a staged tax rate of 20% for the first RM500,000 of chargeable income and a designated percentage for the subsequent balance (MIA, 2016). This threshold allows the study to fully capture the effect of investment tax incentives and corporate governance on real investment. The sample for the study is indicated in Table 1.

TABLE 1. Sample companies and their investment tax incentives category

Panel A: Population and sample of study	
a) Population of manufacturing companies extracted from database 2001 to 2015	9605
b) Excluded companies due to incomplete data (number of years of observation<15)	8530
Final sample (number of years of observation = 15)	1075
Panel B: Companies by Type of Investment Tax Incentives	
a) Pioneer Status companies	262
b) Investment Tax Allowance companies	256
c) Reinvestment Allowance companies	557
Final sample (number of years of observation = 15)	1075

RESULTS AND DISCUSSION

Table 2 presents multiple regression (column 1) and panel data (column 2) results. The staggered multiple regressions results which indicate the R-squared for ITI (column 1) are 8%. The multiple regressions results indicate negative relationships of Investment Tax Incentives and Ownership structure; and positive relationship

between Director Shareholding, Director Remuneration and Audit Engagement and Real Investment. Nevertheless, since the multiple variates regression ignores the panel data characteristic residing in the panel dataset, the study performs panel data analysis which results are presented in column 2 of the Table 2.

TABLE 2. Summary of results of multivariate regression and panel data of real investment vs investment tax incentives and corporate governance moderations from 2001 to 2015

	(1)	(2)
VARIABLES	Multivariate	Panel
lnTaxInc	−0.6373***	0.0788***
	(0.1119)	(0.0219)
lnOwnership	−2.4966***	0.2396***
	(0.3788)	(0.0694)
lnDShare	0.4139***	0.0006
	(0.0926)	(0.0179)
lnDRem	0.0245	0.0321**
	(0.0735)	(0.0125)
Audit	0.4211***	0.0038
	(0.1327)	(0.0280)
lnInt	0.1599	0.0758***
	(0.1591)	(0.0162)
lnLoan	0.0719*	0.0425***
	(0.0376)	(0.0038)
lnIPC	−0.0197	0.0009
	(0.0133)	(0.0014)
lnFDI	0.3686***	0.1790***
	(0.0422)	(0.0045)
lnPaidcap	0.0468***	0.0072***
	(0.0058)	(0.0011)
c.lnOwnership#c.lnTaxInc	0.1864***	−0.0130***
	(0.0235)	(0.0046)
c.lnDShare#c.lnTaxInc	−0.0147**	−0.0007
	(0.0057)	(0.0012)
c.lnDRem#c.lnTaxInc	0.0019	−0.0021**
	(0.0046)	(0.0008)
c.Audit#c.lnTaxInc	−0.0305***	−0.0038**
	(0.0083)	(0.0017)
Constant	19.3976***	14.3955***
	(1.9296)	(0.3374)
Observations	13,994	13,994
R-squared	0.0777	0.1777
Number of Firms		948

Standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Column 2 of Table 2 presents the results of panel data analysis using fixed effects model FEM. To arrive at the appropriate model of FEM, the study performed the analyses using competing models of POLS (pooled ordinary least squares), FEM and REM (random fixed effects). Discrimination tests were performed to select the appropriate model, and diagnostic tests were conducted to detect multicollinearity, heteroskedasticity, serial correlation and the outlier effect. The discrimination tests and diagnostic tests prove that FEM is the best model to describe this study. As the real investment (*lnRinvestment*), investment tax incentives (*lnTaxInc*) and moderating corporate governance variables, that is, ownership structure (*lnOwnership*), director shareholding (*lnDhares*), director remuneration (*lnRem*) and external auditor engagement (*Audit*) are log transformed, results should be interpreted in terms of elasticity where a percent change in investment tax incentives resulted in a percentage increase or decrease in real investment, holding all other variables constant.

Next, Table 2 indicates the negative relationships results of corporate governance interactions on the main relation of Investment Tax Incentives and Real Investment. Particularly, the concentrated ownership structure (*lnOwnership*) interaction, director shareholding (*DShare*), director remuneration (*DRem*) and audit engagement (*Audit*) interactions have negative relationships with Real Investment and Investment Tax Incentives at 0.01 and 0.05 significant level except for director shreholding which is not significant. These negative relationships accept the hypotheses H_1, H_2, and H_3, while rejecting H_4.

To examine further, the study presents the robustness tests results of real investment, corporate governance and specific investment tax incentives relationships under specific investment tax incentives types. Table 3 provides the results of a robustness test of real investment and specific investment tax incentives of PS, ITA and RA, as well as corporate governance over the study period 2001 to 2015.

TABLE 3: Summary of robustness test results of real investment and specific investment tax incentives of pioneer status, investment tax allowance and reinvestment allowance as well as corporate governance from 2001 to 2015

	(1)	(2)	(3)
VARIABLES	RI−PS	RI−ITA	RI−RA
lnOwnership	1.5269***	−0.7789***	0.1924
	(0.1133)	(0.1063)	(0.1310)
lnDShare	0.2039***	0.0189	−0.0380
	(0.0629)	(0.0260)	(0.0292)
lnDRem	0.1653***	−0.0372**	0.0083
	(0.0163)	(0.0185)	(0.0372)
1.Audit	−0.2509***	0.3642***	0.0544
	(0.0506)	(0.0397)	(0.0400)
lnInt	0.0910***	0.1034***	0.0558**
	(0.0261)	(0.0235)	(0.0225)
lnLoan	0.0552***	0.0475***	0.0266***
	(0.0062)	(0.0056)	(0.0053)
lnIPC	−0.0029	0.0023	0.0033*
	(0.0023)	(0.0020)	(0.0019)
lnFDI	0.1918***	0.1729***	0.1445***
	(0.0069)	(0.0069)	(0.0064)
lnPaidcap	0.0001	0.0032**	0.6623***
	(0.0011)	(0.0015)	(0.0117)
c.lnOwnership#c.lnTaxInc	−0.1077***	0.0527***	0.0036
	(0.0079)	(0.0066)	(0.0075)
c.lnDShare#c.lnTaxInc	−0.0140***	−0.0017	0.0004
	(0.0044)	(0.0016)	(0.0017)
c.lnDRem#c.lnTaxInc	−0.0116***	0.0026**	0.0017
	(0.0011)	(0.0012)	(0.0015)
0b.Audit#co.lnTaxInc	0.0000	0.0000	0.0000
	(0.0000)	(0.0000)	(0.0000)
1.Audit#c.lnTaxInc	0.0161***	−0.0252***	−0.0070***
	(0.0035)	(0.0025)	(0.0022)
lnPS	0.6748***		
	(0.0368)		
lnITA		−0.2488***	
		(0.0311)	
lnRA			−0.0434
			(0.0334)
Constant	6.0189***	19.4499***	4.1247***
	(0.5325)	(0.5129)	(0.7178)
Observations	3,929	3,436	6,629
R-squared	0.2706	0.3057	0.4392
Number of Firms	262	233	453

Standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Moderations of corporate governance under PS, ITA and RA indicate mixed results. Under PS, moderation of corporate governance on the investment tax incentives and real investment indicate (1) negative and significant relationships in respect of ownership structure (*lnOwnership*), director shareholding (*lnDshare*) and director remuneration (*lnDRem*), thus rejecting H_1, H_2 and H_3; (2) a positive and significant relationship in respect to audit engagement (*Audit*), thus accepting H_4.

Under ITA, moderation of corporate governance on the investment tax incentives and real investment indicate (1) a positive and significant relationship in respect of ownership structure (*lnOwnership*) and director shareholding (*lnDRem*) to reject H_1 and H_3, (2) negative but not significant in respect of director shareholding (*lnDshare*) to accept H2, and negative and significant in respect of audit engagement (*Audit*) to accept H_4.

Under RA, moderation of corporate governance on the investment tax incentives and real investment indicates (1) positive and not significant relationships in respect to ownership structure (*lnOwnership*), director shareholding (*DShare*), director remuneration (*lnDRem*) and audit engagement (*Audit*), thus rejecting H_1, H_2 and H_3, and (2) negative and significant relationships with respect to audit engagement (*Audit*), thereby rejecting H_4.

DISCUSSION, IMPLICATIONS AND CONCLUSION

These moderations results do support the idea of corporate governance that advocate the importance of monitoring and control structure in order to achieve profit maximisation objective through real investment. Corporate governance has the ultimate function to institute the control and monitoring structure to ensure companies achieve its objective especially in the opportunities to increase company value through investment tax incentive privileges. The most important point that transpires from the negative relationships of corporate governance indicate a sign of existence of agency problem with regard of real investment despite of existence of investment tax incentives. Agency problem overwrites the investment tax incentives, thus reduces its effectiveness in real investment

incentives establishment. The role of corporate governance may be supported by the study of James (2013) that found tax incentives are inferior to investment climate; and Surrey (1970) that found that tax incentives as inferior to direct subsidy. This noble role of corporate governance may also explain that the founded belief that investment tax incentives have positive effect on real investment, thus witness influx adoption of investment tax incentives by countries.

The variation of companies enjoying investment tax incentives may make the agency problem experience worsen in the internal institution process of corporate governance (Melin & Nordqvist 2002). Most probably, it may be due to structural issue of ownership structure issue that highly correlated to the real investment. According to Anderson et al. (2012) concentrated ownership that attributed to family business owner influence negatively on real investment by allocating less capital to long-term investment than the companies with diffused ownership structures. In particular, the investment tax incentive may ineffective because the companies have reached optimal stock of capital (Jorgenson 2017), hence adjust their stock of capital down.

Institutional process of corporate governance (Melin & Nordqvist 2002) may provide alternative justification to the neoclassical theory of investment. Tax incentive support the real investment activities by lowering the cost of capital in short term; but in certain case may cause unnecessary crowded out in the sector (Bronzini & Iachini 2014; Hanson & Rohlin 2011; Lokshin & Mohnen 2013) and stiffer competition (Görg et al. 2009) among the players in long term. These effect of investment tax incentive may not be sensed by the tax policy regulators but may be felt by the the institutional process of corporate governance structure. Reiterating the basic of the neoclassical theory of investment that posits tax incentive is supposed to reduce cost of capital, thus stimulating investment to increase (Jorgensen 1963) seems to supportive during the incentive period. However the neoclassical theory of investment may not able to explain the inverse relationship and interaction impact after the incentive period.

The negative relationship of RI-ITI have confirmed previous studies in three areas. First, tax incentives are can be complicated fiscal tool and difficult to be monitored especially after the incentive period. Thus, the array of tax incentives that consist of types of tax incentives deserved close scrutiny and sole assessment. Meanwhile aggregate assessment of investment tax incentives may be misleading due to companies' heteroskedasticity to tax incentives, besides varied tax incentives criteria of qualification. Second, interaction of corporate governance have significant impact on RI-ITI relationship - which most of the times turn around the main relationship from positive to negative - showing how their roles and treatment recognised in the company's real investment. This study results suggest that it is limited incentive period is critical criteria of investment tax incentives and real investment relationship. The expiry of tax incentives create conflict as to whether to continue in real investment. As corporate governance reflects the internal institutional process that promote check and balance of real investment, continuing real investment without tax incentives seem to be very expensive. All these findings suggest that adoption of investment tax incentive program should not only base on companies fundamental factors of investment, requirement of systematic monitoring approach to ensure positive impact on the real investment especially after the incentive period ends, but also the influence of corporate governance.

The investment tax incentives are always available to companies to invest as an indulgence to secure investments. Meanwhile the real investment involves meticulous planning, it also requires multilevel approval to protect all parties' interests. It is very sensitive to economic dynamic which managers will act in the best interest of shareholders. The governance structures determine the companies' real investment through agency prescription which share a common goal of keeping the shareholders interest a priority. The check and balance mechanism in agency prescription always regulate the corporate governance of real investment.

NOTE

[1] Following Brick (2006), we modelled CEO and director compensation and found a significant positive relationship between excess director compensation and CEO compensation. We then regressed future firm performance on CEO and directors' excess compensation. If cronyism were the primary reason for the positive relationship between CEO and director compensation, we would expect a negative relationship between future firm performance and excess CEO and director compensation. This negative association between excess compensation and future firm performance would reflect the suboptimal performance of a management that puts self-interest ahead of shareholder interests.

REFERENCES

Abdi, T. 2008. Machinery & equipment investment and growth: Evidence from the Canadian manufacturing sector. *Applied Economics* 40(4): 465-478.

Aboody, D. & Lev, B. 2000. Information asymmetry, R&D, and insider gains. *The journal of Finance* 55(6): 2747-2766.

Alrshah, A.M. 2015. An empirical analysis of audited financial statements reliability: Mediating role of auditor quality. *International Journal of Finance and Accounting* 4(3): 172-179.

Al-Ajmi, J. 2009. Audit firm, corporate governance, and audit quality: Evidence from Bahrain. *Advances in Accounting* 25(1): 64-74.
Anderson, R.C., Duru, A. & Reeb, D.M. 2012. Investment policy in family controlled firms. *Journal of Banking & Finance* 36(6): 1744-1758.
Anderson, R.C., & Reeb, D.M. 2003. Founding-family ownership and firm performance: Evidence from the S&P 500. *The journal of Finance* 58(3): 1301-1328.
Amran, N.A. 2011. Corporate governance mechanisms and company performance: Evidence from Malaysian companies. *International Review of Business Research Papers* 7(6): 101-114.
Blair, M.M. 1995. *Ownership and Control: Rethinking Corporate Governance for the Twenty-first Century*. Washington, DC: Brookings Institution.
Block, J.H. 2012. R&D investments in family and founder firms: An agency perspective. *Journal of Business Venturing* 27(2): 248-265.
Boumosleh, A. 2012. Firm investment decisions, dividend policy, and director stock options. *Review Journal of Applied Business Research* 84(5): 1521-1552.
Brick, I.E., Palmon, O. & Wald, J.K. 2006. CEO compensation, director compensation, and firm performance: Evidence of cronyism? *Journal of Corporate Finance* 12(3): 403-423.
Bronzini, R. & Iachini, E. 2014. Are incentives for R&D effective? Evidence from a regression discontinuity approach. *American Economic Journal*: *Economic Policy* 6(4): 100-134.
Bøhren, Ø., Cooper, I. & Priestley, R. 2007. Corporate governance and real investment decisions. In *EFA 2007 Ljubljana Meetings Paper.*
Claessens, S. & Fan, J.P. 2002. Corporate governance in Asia: A survey. *International Review of Finance* 3(2): 71-103.
Dah, M.A. & Frye, M.B. 2017. Is board compensation excessive? *Journal of Corporate Finance* 45: 566-585.
Enriques, L. & Volpin, P. 2007. Corporate governance reforms in continental Europe. *Journal of Economic Perspectives* 21(1): 117-140.
Francis, J.R. & Yu, M.D. 2009. Big 4 office size and audit quality. *The Accounting Review* 84(5): 1521-1552.
Gregg, P., Machin, S. & Szymanski, S. 1993. The disappearing relationship between directors' pay and corporate performance. *British Journal of Industrial Relations* 31(1): 1-9.
Görg, H., Molana, H. & Montagna, C. 2009. Foreign direct investment, tax competition and social expenditure. *International Review of Economics & Finance* 18(1): 31-37.
Hanson, A. & Rohlin, S. 2011. The effect of location-based tax incentives on establishment location and employment across industry sectors. *Public Finance Review* 39(2): 195-225.
Jaafar, S.B., Wahab, E.A.A. & James, K. 2012. Director remuneration and performance in Malaysia family firms: An expropriation matter? *World Review of Business Research* 2(4): 204-222
James, S. 2013. Effectiveness of tax and non-tax incentives and investments: Evidence and policy implications. Browser Download This Paper.
Jensen, M.C., & Meckling, W.H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3(4): 305-360.
Jorgenson, D.W., Hall, R. & Fromm, G. 2017. Application of the theory of optimum capital accumulation. In *Tax Incentives and Capital Spending.*
Liew, CY, Devi, SS, Alfan, E (2015, 25-26th September). Independent directors' tenure, related party transactions, expropriation and firm value: Evidence from Malaysian firms. Paper presented at the 5th International Conference on Corporate Governance In Emerging Markets, Leipzig, Germany.
Lokshin, B. & Mohnen, P. 2013. Do R&D tax incentives lead to higher wages for R&D workers? Evidence from The Netherlands. *Research Policy* 42(3): 823-830.
Loy, T.C.J. 2010. *Dynasting Across Cultures: A Grounded Theory of Malaysian Chinese Family Firms*. University of Minnesota.
Maffini, G., Xing, J. & Devereux, M. 2016. The impact of investment incentives: Evidence from UK corporation tax returns. *American Economic Journal: Economic Policy* 11(3): 361-89.
Maher, M. & Andersson, T. 2012. *Corporate Governance: Effects on Firm Performance and Economic Growth Convergence And Diversity in Corporate Governance Regimes And Capital Markets*. Oxford University Press, Oxford (pp. 386-420). MIA. (2015). 2015 Budget Commentary & Tax Information. Kuala Lumpur, Malaysia.
Magnan, M., St-Onge, S. & Gélinas, P. 2010. Director compensation and firm value: A research synthesis. *International Journal of Disclosure and Governance* 7(1): 28-41.
McConnell, J.J. & Servaes, H. 1990. Additional evidence on equity ownership and corporate value. *Journal of Financial Economics* 27(2): 595-612.
Melin, L. & Nordqvist, M. 2002. The role of cultural and institutional processes in shaping corporate governance systems in family firms. Paper presented at *the Proceedings of the 13th Annual World Conference of the Family Business Network.*
MIA. 2015. 2015 Budget Commentary & Tax Information Kuala Lumpur, Malaysia.

MITI. 2006. Third Industrial Master Plan 2006-2020. Kuala Lumpur: Ministry of International Trade and Industries.
MOF. 2016. Tax Incentives by Sector. Retrieved 15 July 2016, 2016, from http://www.treasury.gov.my/index.php/en/tax/item/1147-manufacturing.html
Morck, R., Shleifer, A. & Vishny, R.W. 1988. Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics* 20: 293-315.
Nasrum, M. 2013. The influence of ownership structure, corporate governance, investment decision, financial decision and dividend policy on the value of the firm manufacturing companies listed on the Indonesian Stock Exchange. *Journal Managerial* 1(1).
Pattanayak, M. 2008. Disentangling the performance and entrenchment effect of family shareholding: A study of Indian corporate governance. *The Journal of Entrepreneurial Finance* 12(4): 105-128.
Rachagan, S. & Satkunasingam, E. 2009. Improving corporate governance of SMEs in emerging economies: A Malaysian experience. *Journal of Enterprise Information Management* 22(4): 468-484.
Surrey, S.S. 1970. Tax incentives as a device for implementing government policy: A comparison with direct government expenditures. *Harvard Law Review* 83(4): 705-738.
Shleifer, A. & Vishny, R.W. 1989. Management entrenchment: The case of manager-specific investments. *Journal of financial economics* 25(1): 123-139.
World Bank. 2006. Assessing the Effectiveness and Impact of Fiscal Incentives in Malaysia.
Yoong, L.C., Alfan, E. & Devi, S.S. 2015. Family firms, expropriation and firm value: Evidence from related party transactions in Malaysia. *The Journal of Developing Areas* 49(5): 139-152.

Mohamad Faizuddin Alimon
Faculty of Business and Economics
Universiti Malaya
50603 Kuala Lumpur, MALAYSIA.
Email: faizuddin@hasil.gov.my

Anna Che Azmi*
Faculty of Business and Economics
Universiti Malaya
50603 Kuala Lumpur, MALAYSIA.
Email: annaazriati@um.edu.my

Mohd Zulkhairi Mustapha
Faculty of Business and Economics
Universiti Malaya
50603 Kuala Lumpur, MALAYSIA.
Email: zulkhairi@um.edu.my

*Corresponding author