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Academic Audit Committee Directors, Tax Governance, and Corporate Tax Avoidance

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ABSTRACT

Purpose – This paper investigates the degree to which academic members of audit committees influence corporate tax avoidance via internal governance mechanisms.
Design/methodology/approach – Structural equation modeling is applied in testing direct, mediating and antecedent governance relationships with findings reported.
Findings – The results indicate that academic financial experts serving on audit committees are related to lower levels of corporate tax avoidance. This relationship is basically indirect and works through a higher quality of tax governance, consisting in better law, high control risk oversight and more transparency. The findings suggests that academic directors primarily act as effective monitors rather than advisers in the context of tax planning. Stronger tax governance, for its part, limits managerial discretion in tax decisions and discourages aggressive-taxing behavior. Moreover, the analysis also implies that governance-related mechanisms largely contribute to determine tax policies, especially in cases where inside monitoring is essential.
Originality/value – We contribute to the tax avoidance literature by incorporating tax governance quality as an intervening factor between audit committee members with accounting expertise and tax outcomes. It contributes to the existing literature on board heterogeneity by emphasizing the unique contribution of academic directors in governance-sensitive areas such as taxation.
Research Implications – The findings highlight the significance of expertisebased AC composition and have implications for regulating corporate tax behaviours towards more responsible and transparent governance.

1. Introduction

The global tax landscape is evolving rapidly, increasing the risk level for tax operations and decisions. Attempts at a global level, for example the OECD/G20 Base Erosion and Profit Shifting (BEPS) action project, have demonstrated how aggressive tax planning by multinationals can reduce national tax revenues and harm public trust in corporate behaviour (Dyreng et al., 2019; Graham et al., 2014; Oecd, 2024; Wilde & Wilson, 2018). The need for corporate boards, particularly audit committees, to oversee their companies' tax risks and ensure responsible tax compliance is increasing. This is due to the fact that tax authorities are building capacity to enforce tax regulations in more countries, and public stakeholders are demanding greater tax transparency (Armstrong et al., 2015; Cambridge Econometrics et al., 2022; Hanlon & Heitzman, 2010; Lanis & Richardson, 2011, 2016). From this point of view, tax avoidance is not just a way of optimising the economy. It is also a governance and a reputational issue. These can bring legal, political and social costs to firms (Desai & Dharmapala, 2009b; Dyreng et al., 2019; Graham et al., 2014).

In terms of corporate governance, tax evasion is arguably the best example of agency problems. The agency theory suggests that when there are weak monitoring mechanisms in place, managers and controlling shareholders may use aggressive tax strategies to extract private benefits from minority shareholders (Abdul Wahab & Holland, 2012; Desai & Dharmapala, 2006, 2009b, 2009a; Hu et al., 2010; Jensen & Meckling, 2019; Mouselli & Hussainey, 2014). To combat opportunistic behaviour, it is vital to have robust internal governance structures in place. One such structure is the audit committee, which has been shown to improve monitoring over financial reporting, internal controls and tax decision-making (Armstrong et al., 2015; Hung-Yi Hsu, 2023; Vernon N Hsu et al., 2019; Lanis et al., 2022; Robinson & Slemrod, 2012). Preliminary studies have also established a negative correlation between the attributes of an audit committee

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independence, expertise and diligence and the extent of aggressive tax avoidance, signifying a preference for directorial calibre as opposed to the mere establishment of a formal committee (Lanis & Richardson, 2012, 2016; Rizqia & Lastiati, 2021) (Badolato et al., 2014; Lanis & Richardson, 2018; Gallemore et al., 2019; Richardson et al., 2016).

Recent studies have begun to examine the diversity of independent directors, indicating that varying tenure experiences result in different monitoring structures and capabilities. A particular kind of independent director is the academic director, who is associated with a university or research institution. This kind of director requires particular consideration (White et al., 2014; Francis et al., 2015; Cho et al., 2017; Chen et al., 2019). Theory regarding reputation suggests that universities place a high value on personal integrity, ethical conduct, and maintaining a good reputation. This makes academics more conscious of actions that could lead to regulatory action or harm the institution's reputation. Such actions include aggressive tax avoidance (Fombrun & Shanley, 1990; White et al., 2014; Dyreng et al., 2019; Francis et al., 2015). What's more, academic directors may find themselves unable to offer guidance to management on tax sheltering activities due to their own lack of experience with sophisticated tax planning techniques (Francis et al., 2015; Chen et al., 2006; Audretsch & Lehmann, 2006; Jiang & Murphy, 2007).

Consistent with these views, a recent study in China shows that academic directors on audit committees are more like monitors holding back aggressive tax avoidance as opposed to enabling value-enhancing tax planning for under-sheltered firms (Chen et al., 2026). Although this research offers critical evidence about the direct impact of academic directors on tax avoidance, a central question still remains: How do academic directors affect corporate tax performance through internal governance? Former tax research predominantly dichotomizes tax avoidance outcomes while having not explicitly modelled the quality of internal tax governance practices influencing managerial discretion (Graham et al., 2014; Armstrong et al., 2015; Wilde & Wilson, 2018; Dyreng et al., 2019). Filling this void is crucial for determining the role of scholarly expertise as either a purely symbolic monitoring tool or a substantive governance mechanism.

This study fills the gap in literature by specifically incorporating tax governance quality as an intervening process that connects academic directors on audit committees with corporate tax avoidance. Tax governance captures the degree in which companies formalize tax policies, exercise a systematic tax risk oversight role, increase transparency and incorporate taxation into audit committee mandates (Graham et al., 2014; Armstrong et al., 2015; Wilde & Wilson, 2018; Chen et al., 2019). Robust tax governance constrains managerial discretion, and sets the long run value of the firm as well as regulatory legitimacy as targets for tax strategy instead of short-termism (Dyreng et al., 2019; Lanis & Richardson, 2018). We suggest that academic directors, especially those with accounting and finance expertise, are uniquely situated to foster these forms of governance by focusing on procedural diligence, ethical observance and reputation protection.

The empirical setting of this paper is most emerging countries, where ownership structures are concentrated, external enforcement is weaker and governance mechanisms are formally established but inconsistently enforced. In situations like these, it is crucial to understand the role of internal governance mechanisms, especially the audit committee. These mechanisms have the potential to influence corporate behaviour and mitigate potential opportunism (Fan & Wong, 2005; Armstrong et al., 2010; Chan et al., 2016). The quality of governance at the level of the firm is a key factor in determining how decisions such as corporate tax planning are shaped and carried through, to the extent that weak regulatory scrutiny and market discipline are present. Consequently, investigating the impact of audit committee expertise on corporate tax governance and tax avoidance would yield findings applicable in developing and emerging economies.

In summary, the present study makes three distinct contributions to our body of knowledge. The provision of empirical evidence of academic directors as a unique and theoretically relevant governance mechanism that shapes corporate tax behaviour is our first contribution to the audit committee and board heterogeneity literature. Secondly, it makes a contribution to the tax avoidance literature by directly considering TQG as a mediating vehicle. This makes it clear how expert monitoring leads to observable tax outcomes, rather than assuming solely a direct effect. Thirdly, the paper talks about how companies are governed in emerging markets. This helps us understand the general idea of how taxes and governance are connected. It also supports discussions about how companies should be taxed, how they should be governed in a way that cares about the environment and how companies should be held responsible for their actions.

The rest of this paper is organised as follows. Section 2 provides a theoretical background, reviews relevant literature, develops a theoretical basis and proposes research hypotheses. Section 3 describes the research design, sample selection and variable measurement. Section 4 includes the empirical results and structural

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model evaluations. The main findings are presented, discussed in terms of their theoretical and practical implications, and further research is suggested in the final section of the paper.

2. Critical Review

2.1 Theoretical foundation

The research has chiefly been founded on agency theory, which posits that conflicts of interest between managers and controlling shareholders, as well as between these actors and minority shareholders, may result in opportunistic corporate activities such as aggressive tax avoidance (Jensen & Meckling, 1976; Desai & Dharmapala, 2006). The presence of mechanisms for quality monitoring, such as audit committees, is especially important in the corporate governance of companies (Armstrong et al., 2010). These mechanisms help to reduce agency problems. Directors concerned about their reputations are expected to be more inclined to avoid riskier tax avoidance strategies, as per reputational capital theory (White et al., 2014; Dyreng et al., 2019). These strategies could potentially harm the corporate and individual image of these individuals. It is thought that, as external experts belonging to universities, academic directors have higher ethical standards and are more concerned with reputation risk (Hossain et al., 2005). They are also less likely to encourage aggressive accounting practices than financial firms that help to hire auditors or finance the company. In these countries, the ruling authoritarian government is unable to be challenged easily, which means that while it is possible for other institutions to provide tax governance by enforcing the elite bargain, internal governance can play a vital role in shaping firms' tax behaviours.

2.2 Academic directors on audit committees and corporate tax avoidance

Previous researches indicate that audit committee has great power to affect firms' financial reporting and tax position choices (Robinson et al., 2012; Lanis et al., 2017). The academic directors are a special type of independent director with strong analytical ability, professional integrity, and reputation concerns (White et al., 2014). Evidence from China indicates that academic directors serving as audit committee members are effective monitors who restrain aggressive tax avoidance but not aid businesses with its tax planning (Chen et al., 2026). Because academic directors have relatively limited sector-specific tax knowledge, they are unlikely to advocate aggressive tax sheltering schemes but might discourage too much aggressive tax behavior in order to protect reputational capital. This monitoring function should be especially important in developing-country contexts like Indonesia, where the enforcement of corporate taxes is patchy.

H1: Academic directors on audit committees are negatively associated with corporate tax avoidance.

2.3 Academic directors and tax governance quality

Tax governance is an indicator of the extent to which firms develop formal processes, oversight and disclosure practices for tax planning and compliance (Graham et al., 2014; Wilde & Wilson, 2018). s strong governance systems im- prove accountability and restrict managerial discretions in tax management. Academic leaders, in particular those with accounting and finance training, can play a role in improving tax governance by advancing structured monitoring, moral tax behavior and public disclosure related to the theme (Francis et al., 2015; Chen et al., 2019). Their presence on audit committees might enhance quality of tax governance by promoting formal tax policies, and higher quality of monitoring for risks related to taxes.

H2: Audit committee academic directors are positively associated with tax governance quality.

2.4 Tax governance quality and corporate tax avoidance

Effective tax governance limits aggressive tax planning by intensifying internal control as well as the coherence of taxation strategies with long-term firm value and regulatory guidelines (Armstrong et al., 2015; Dyreng et al., 2019). Those companies with better tax governance are more inclined to take a conservative approach in their tax positions and to avoid high risk, which might put them under scrutiny from the regulators or have an impact on their reputation. Previous evidence suggests that transparent tax rates and an effective enforcement limit the levels of tax aggressiveness especially in emerging countries taking into consideration their less strict external enforcement (Wilde & Wilson, 2018).

H3: The relationship between tax governance quality and corporate tax avoidance is negative.

2.5 The mediating role of tax governance

Although academic directors may directly inhibit aggressive tax avoidance, their effect also works indirectly in terms of the improvement of tax governance mechanisms. Through enhanced tax monitoring, the formalization of tax policies, and improved transparency, academic board members diminished managerial tendencies and opportunities for aggressive TAX behaviour. This mediating process advances previous

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studies by explicitly illuminating the process of how board expertise results in tax outcomes via governance channels.

H4: The quality of tax governance mediates the effect of academic directors on audit committees on corporate tax avoidance.

2.6 Research model framework

This paper provides a research model based essentially on agency theory (Jensen & Meckling, 1976), which expects that good internal corporate governance mechanisms will lessen the extent of self-interested behaviour – including aggressive tax avoidance - by managers. Academic independent directors serving as members of audit committees will help to increase the effectiveness of monitoring and improve the quality of corporate tax governance, thus curbing earnings management issues relating to aggressive tax avoidance. In the developing country context of Indonesia, where external enforcement is low (14), this governance-related channel substantially influences the tax outcomes of firms.

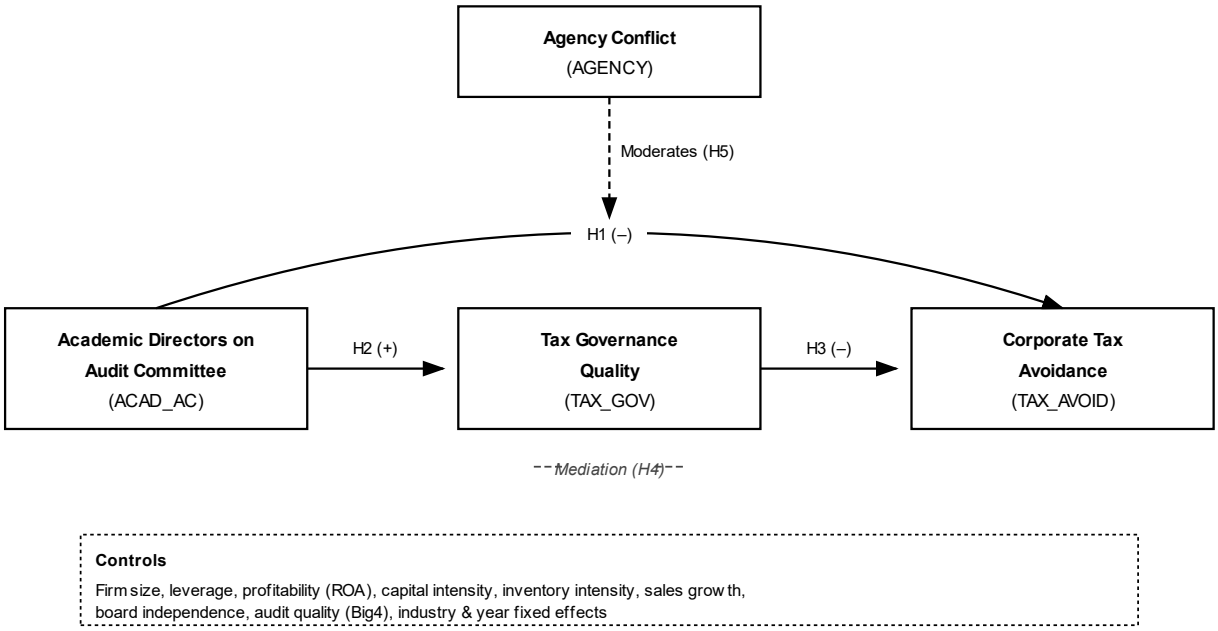

Figure 1. Research Framework

Context: Listed non-financial firms in Indonesia (emerging Asian market).

3. Methods innovation

3.1 Research design

This paper follows a quantitative explanatory research design to investigate corporate tax avoidance by focusing on the governance mechanisms by which academic directors in audit committees operate. Based on agency theory (Jensen & Meckling, 1976), the architecture highlights the monitoring function of internal governance to discipline opportunistic tax behaviour. A panel-data methodology that accounts for both cross-sectional and intertemporal dimensions of governance structures and tax outcomes is used. This approach is commonly used in modern tax and corporate governance studies to alleviate unobserved heterogeneity concerns, as well to enhance causal inference (Armstrong et al., 2015; Dyreng et al., 2019; Chen et al., 2026). The study also introduces a mediating mechanism to complement existing analyses by more explicitly incorporating tax governance as an underlying conveyance device.

3.2 Research object and sample

The study focuses on non-financial companies listed on the Indonesia Stock Exchange (IDX). This provides an emerging Asian context for the analysis, as this market has a high concentration of ownership and developing tax enforcement fines. The significance of internal

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governance mechanisms as determinants of corporate tax behaviour may be increased by this institutional setting, according to agency theory (Desai & Dharmapala, 2006; Chan et al., 2016). The sample consists of firm-year observations from 2016 to 2024, which were purposively sampled due to data availability and consistency issues. Banks are omitted because of their specific regulatory structure, which is in place to ensure they are subject to strict oversight and supervision. You can find more information on the population and sample selection in Appendix A. This context is in line with the more recent literature on tax research in emerging markets, which focuses on governance efficacy where external monitoring is somewhat lacking (Wilde & Wilson, 2018; Chen et al., 2026).

3.3 Variable instruments

Four tax avoidance proxy variables are employed to measure corporate tax avoidance, including ETR and CETR proxies popularly used in prior literature (Hanlon & Heitzman, 2010; Dyreng et al., 2019). Financial expertise on audit committees is operationalized as the number of or percentage of committee members with corporate financial expertise, a proxy for board experience and reputational capital (White et al., 2014; Francis et al., 2015). Tax governance quality is measured as a composite index based upon tax policy, risk control and transparency, which extends previous research on governance and taxes. Comprehensive variable definitions, formulas and sources are provided in Appendix B, following the methodology modeled in recent high profile work (Graham et al., 2014; Chan et al.,2026).

3.4 Data analysis

Hypotheses are tested using SmartPLS 4 in the context of partial least squares (PLS) structural equation modelling. This allows for both direct and mediating effects to be accounted for. Complicated governance models that consist of latent constructs can be analysed using PLS-SEM (Hair et al., 2022). This method is also applicable to mediating effects, especially in emerging market studies. The methodology is in line with the resource-based and agency constructs, which make it possible to estimate under conditions where data is not normally distributed. We use something called 'bootstrapping methods' to work out how important the paths and indirect effects are. The multi-faceted nature of governance mechanisms is being explored through an increasing use of PLS-SEM in recent accounting and governance research (Sarstedt et al., 2020; Hair et al., 2022; recent ESG–tax governance literature). This is also helping to improve predictive validity.

4. Results and Discussion

4.1 Measurement model evaluation

Table 1 provides details of the distributional properties of all the observed indicators that are used to operationalise the constructs in the SmartPLS model. The mean value for ACAD_Dir_AC (Academic_Directors_AC_Prop) is 0.266. The maximum value is 1.000. This shows that some firms have all audit committee members from academia. Others have none (min=0.000). The mean value (0.295) of the agency measure (AGENCY_CONFLICT) is moderate and falls within the theoretical range (0–0.667), indicating substantial variation in governance tension across firms. The TAX_GOV indicators range on average from the mid-high to the high range (means: 2.947–3.943 on a scale of 1–5), with considerable variability spread across all SDs (approximately 0.77–0.85), indicating that there is sufficient variability for modelling purposes. Tax avoidance proxies exhibit a narrow spread (SD 0.008–0.009) with a centred value slightly above 0.783, reflecting stable long-term mean values. Non-normality (skewness 2.220; excess kurtosis 3.912) of leverage for controls indicates the presence of heavier tails, and wide dispersion in size is evident (SD 1.250). In general, the sample affords enough range across the measures to obtain stable estimates for both measurement and structural models.

Table 2 examines indicator reliability through outer loadings, statistical significance and multicollinearity diagnostics. Strong loadings are observed for all of the reflective indicators for these two multi-item constructs: TAX_GOV (ranging from 0.849 to 0.936) and TAX_AVOID (ranging from 0.974 to 0.978), exceeding conventional cutoff points for indicator reliability, such that each indicator captures a substantial amount of shared variance with its latent construct. Bootstrapping of all multi-item loadings are significant with very high t-values (e.g., 39.954–104.728 for TAX_GOV; 254.192–375.461 for TAX_AVOID; $p<0.001$), and the confidence intervals do not contain zero, which implies stable quality measurement. The single-item constructs (ACAD_AC and AGENCY) are defined by a loading of 1.000, and are considered directly observed in the models. In terms of multicollinearity, the outer VIF values in TAX_GOV (2.249–4.850) and TAX_AVOID (5.548) were observed to indicate a moderate collinearity being APPROACHED for both the two variables with typical threshold if limited by such value). However, amidst the extremely high loadings and conceptual closeness of the tax avoidance proxies, measurement is still acceptable but does indicate reporting both in terms of robustness checks seems appropriate.

Table 3 presents the internal consistency, reliability and convergent validity for the reflective constructs. The Cronbach's alpha (0.950), therho_A (0.957) and the

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composite reliability score (0.976) of the measurement block all suggest that TAX_AVOID is highly reliable. Convergent validity is outstanding (see Table 4, AVE = 0.953), indicating that the construct accounts for most of the variance in its indicators. The strong measurement properties of TAX_GOV are evident, as is its stable internal consistency, as demonstrated by Cronbach's alpha (0.922), rho_A (0.925), and composite reliability (0.945). The AVE for TAX_GOV is 0.811, which is significantly higher than the prescribed threshold for basic benchmarks[46] and supports the idea that the tax governance construct reflects a large amount of common variance between tax policy disclosure, risk oversight, transparency, and audit committee oversight. The findings, when considered as a whole, demonstrate that both multi-item constructs are measured with a high degree of reliability and convergent validity. This provides a solid foundation for testing the structural model of mediation and moderation.

Table 4 presents the results of the discriminant validity analysis using the HTMT criterion, which was conducted across the model constructs and main variables. The TAX_AVOID and TAX_GOV constructs are 0.795 away from each other, which means that, even though they are linked as governance mechanisms (construction-based), the correlation is still within the usual cut-offs and discriminant validity is maintained. The strongest HTMT was found to be between TAX_AVOID and ACAD_AC (0.848), in line with the strong negative empirical association that was observed in the correlations. However, this value is still within the acceptable range for both concepts to be distinguished at the concept level between academic audit committee composition and tax avoidance behaviour. TAX_GOV and ACAD_AC show mild HTMT (0.599), which indicates that there is substantial overlap but no redundancy. This is in line with the idea of academic directors as a way to improve tax governance behaviour. The estimates of HTMT are low (generally less than 0.342) between AGENCY and Big4_Auditor, suggesting good discriminant validity from the latter concepts. Overall, the HTMT evidence suggests that the constructs employed in the PLS-SEM model are distinct and that subsequent structural estimates will not be affected by a lack of discriminant validity.

Table 1 Descriptive Statistics of Latent Variable Indicators

Indicator	Mean	Median	Min	Max	SD	Skewness	Kurtosis	N
Academic_Directors_AC_Prop	0.266	0.25	0.000	1.000	0.241	0.478	-0.673	180
AGENCY_CONFLICT	0.295	0.303	0.000	0.667	0.185	0.025	-0.96	180
Big4_Auditor	0.55	1.000	0.000	1.000	0.497	-0.203	-1.981	180
CAPINT_9yr_Avg	0.5	0.504	0.403	0.574	0.031	-0.244	-0.178	180
INVINT_9yr_Avg	0.14	0.14	0.113	0.174	0.011	0.166	0.139	180
LEV_9yr_Avg	0.522	0.508	0.459	0.698	0.056	2.22	3.912	180
ROA_9yr_Avg	0.048	0.048	0.033	0.062	0.005	0.072	0.117	180
SALES_GROWTH_9yr_Avg	0.046	0.047	0.013	0.081	0.014	0.008	-0.545	180
SIZE_9yr_Avg	34.629	34.623	29.983	36.621	1.25	-0.456	0.197	180
AC_Tax_Supervision	3.63	3.589	1.000	5.000	0.848	-0.341	-0.049	180
Tax_Policy_Disclosure	3.276	3.298	1.000	5.000	0.807	-0.083	-0.378	180
Tax_Risk_Oversight	3.943	3.987	1.548	5.000	0.78	-0.517	-0.317	180
Tax_Transparency	2.947	2.926	1.32	4.906	0.768	0.122	-0.552	180
Tax_Avoidance_1_9yr_Avg	0.783	0.783	0.767	0.800	0.008	-0.133	-0.839	180
Tax_Avoidance_2_9yr_Avg	0.783	0.784	0.758	0.803	0.009	-0.13	-0.485	180

Table 2 Indicator Loadings and Reliability Assessment

Construct	Indicator	Outer Loading	t-value	p-value	95% CI	VIF
ACAD_AC	Academic_Directors_AC_Prop	1.000	n/a	n/a	1.000–1.000	1.000
AGENCY	AGENCY_CONFLICT	1.000	n/a	n/a	1.000–1.000	1.000
TAX_GOV	Tax_Policy_Disclosure	0.893	59.978	0.000	0.860–0.919	2.967
TAX_GOV	Tax_Risk_Oversight	0.936	104.728	0.000	0.916–0.951	4.85
TAX_GOV	Tax_Transparency	0.849	39.954	0.000	0.803–0.887	2.249
TAX_GOV	AC_Tax_Supervision	0.922	74.886	0.000	0.894–0.942	4.216

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Construct	Indicator	Outer Loading	t-value	p-value	95% CI	VIF
TAX_AVOID	Tax_Avoidance_1_9yr_Avg	0.978	375.461	0.000	0.973–0.983	5.548
TAX_AVOID	Tax_Avoidance_2_9yr_Avg	0.974	254.192	0.000	0.965–0.981	5.548
Interaction	AGENCY × ACAD_AC	1.000	n/a	n/a	1.000–1.000	1.000

Table 3 Internal Consistency Reliability and Convergent Validity

Construct	Cronbach's Alpha	rho_A	(rho_C)	AVE
TAX_AVOID	0.95	0.957	0.976	0.953
TAX_GOV	0.922	0.925	0.945	0.811

Table 4 Discriminant Validity Using HTMT Criterion

Construct Pair	HTMT
TAX_AVOID ↔ TAX_GOV	0.795
TAX_AVOID ↔ ACAD_AC	0.848
TAX_GOV ↔ ACAD_AC	0.599
TAX_AVOID ↔ AGENCY	0.274
TAX_GOV ↔ AGENCY	0.111
ACAD_AC ↔ AGENCY	0.125
TAX_AVOID ↔ Big4_Auditor	0.182
TAX_GOV ↔ Big4_Auditor	0.342
(selected controls pairs)	≤0.181

4.2 Measurement model results

Table 5 reports the outer loadings of the reflective constructs in the measurement model where only TAX_GOV and TAX_AVOID are multi-indicator latent variables. Influences of indicators All TAX_GOV tax and governance performance indicators load highly on the factor, with loadings overt the range from 0.849 (Tax_Transparency) to 0.936 (Tax_Risk_Oversight). These values suggest that every item has a relatively strong contribution towards forming the underlying tax governance disclosure and oversight dimension with AC_Tax_Supervision (0.922) having high content validity in relation to the construct. For TAX_AVOID, both measures have very high loadings (0.974–0.978) indicating that the two proxies for tax avoidance are highly consistent efforts to measure the same underlying outcome. The catchiness of these loadings means measurement error to be statistically small and the constructs explain large variance of their indicators. Taken together, they support strong reliability of the indicators and present a sturdy foundation for interpreting structural inter-relationships in the inner model – mediation (existence through TAX_GOV) and the tested moderation.

Internal consistency reliability and convergent validity for the reflective constructs is presented in Table 6. Both TAX_AVOID and TAX_GOV exhibit good reliability (Cronbach's alpha greater than 0.90), therefore high internal consistency between the indicators within each construct. The rho_A values (0.957 for TAX_AVOID; 0.925 for TAX_GOV) further provide proof of stability and robustness of measurement model under PLS estimation. The composite reliability (rho_C) is also high (0.976 and 0.945), indicating that the indicator sets collectively reflect their respective latent variables with little measurement error. Convergent validity results are clearly displayed by very high values of AVE which are higher than typical cut-off points: TAX_AVOID has an AVE=0.953 showing that it explains almost all variance in the two proxy variables, and TAX_GOV we achieve an average value of AVE=0.811 meaning that the latent variable accounts for more than four-fifths of the variance within its respective indicators. In sum, Table 6 provides evidence that the reflective measurement model satisfies reliability and convergent validity criteria indicative of strong support for credibility of further hypothesis testing in structural model.

Table 5 Outer Loadings of Reflective Constructs

Construct	Indicator	Outer Loading
TAX_GOV	Tax_Policy_Disclosure	0.893
TAX_GOV	Tax_Risk_Oversight	0.936

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Construct	Indicator	Outer Loading
TAX_GOV	Tax_Transparency	0.849
TAX_GOV	AC_Tax_Supervision	0.922
TAX_AVOID	Tax_Avoidance_1_9yr_Avg	0.978
TAX_AVOID	Tax_Avoidance_2_9yr_Avg	0.974

Table 6 Construct Reliability and Validity Statistics

Construct	Cronbach's Alpha	rho_A	(rho_C)	AVE
TAX_AVOID	0.95	0.957	0.976	0.953
TAX_GOV	0.922	0.925	0.945	0.811

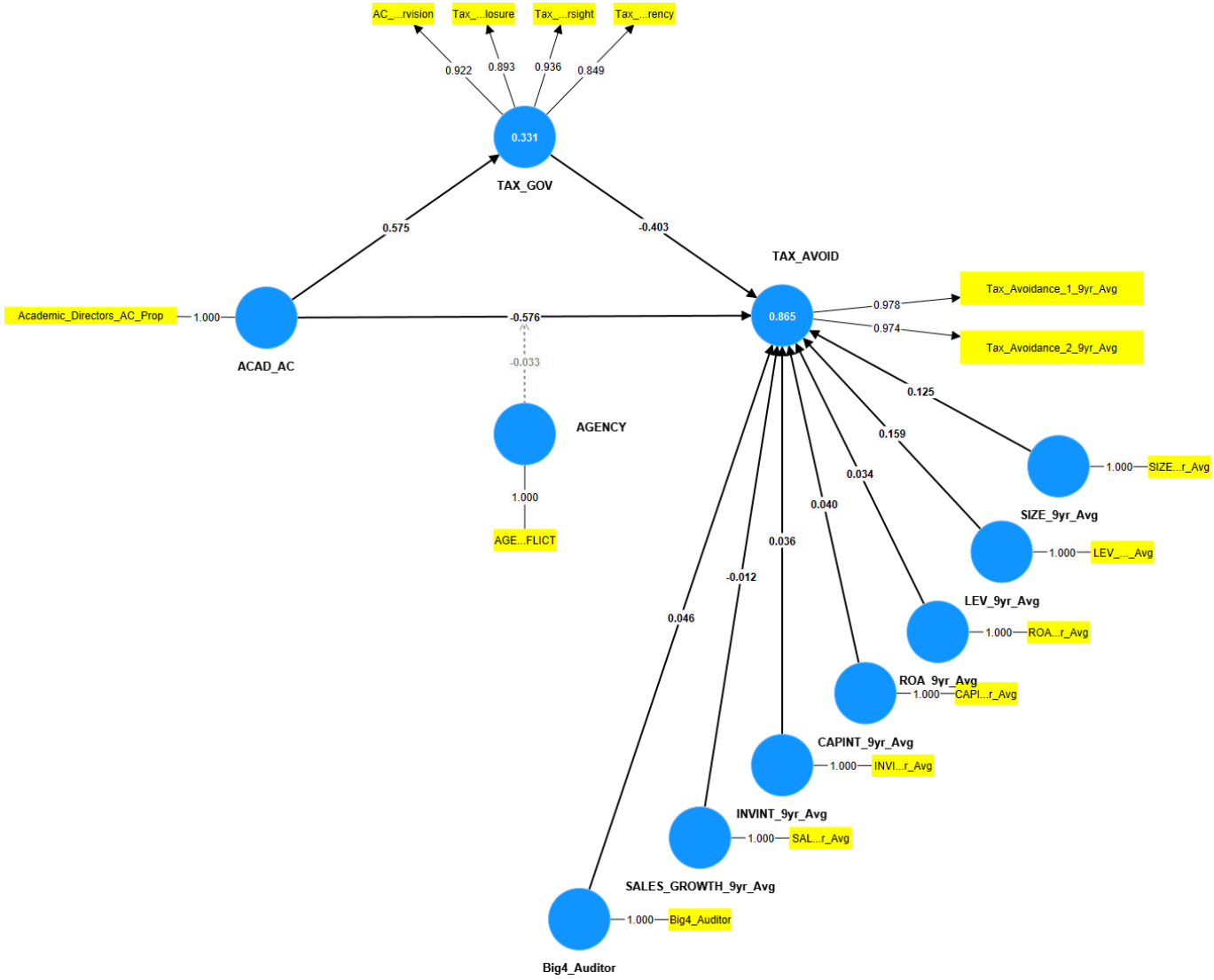

Figure 2 Measurement model (outer model)

4.3 Structural model assessment

The variance inflation factor (VIF) for all predictor–criterion relationships on the structural model is reported in Table 7. All VIFs are significantly lower than the conservative cut-off value of 3.3 and the more liberal threshold of 5.0 generally used in PLS-SEM, suggesting that there are no severe multicollinearity problems

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among the predictors. The biggest VIF is obtained for path TAX_GOV > TAX_AVOID (1.705), still far below the cut-off value and showing, at most, a small extraneous variance with other predictors. The value of the VIF for the interaction term (1.072) suggests that multicollinearity is not an issue with this moderation specification. Control variables such as firm size, leverage, profitability, growth, capital intensity, inventory intensity and audit quality all have VIF values close to 1.0 which imply near-orthogonality. Taken together the results imply that the estimated path coefficients are not biased due to collinearity and they can be interpreted with confidence when it comes to testing hypothesis.

The coefficients of determination (R^2) for endogenous constructs in the structural model are provided in Table 8. The R^2 for TAX_AVOID which is 0.865 implies that nearly 86.5% variability in corporate tax avoidance owing to presence of academic director and agency conflict, tax governance, interaction term as well as the set of firm level control variables has been elucidated. This degree of explanatory power could be considered as being large in PLS-SEM and empirical accounting studies. The adjusted R^2 = 0.856 also evidences that the model sustains high level of explanatory power even after correcting for degree of model complexity. For TAX_GOV R^2 value of 0.331 means that proportion of the variation in tax governance disclosure and oversight practices, is a consequence of academic director representation on boards at our sample firms, which is moderate explanatory power. Taken together, these findings suggest that the proposed model is suitable for explaining both the mediating factor (TAX_GOV) and the dependent variable (TAX_AVOID), thus laying a solid theoretical basis for testing direct, indirect, and moderating effects.

4.4 Hypothesis testing results

The direct effects are presented in Table 9, with bootstrapping having been applied in PLS-SEM. ACAD_AC has a strong and statistically significant negative impact on tax avoidance ($\beta = -0.576$, $p < 0.001$), indicating that the academic background of ACAM in audit committees reduces aggressive tax behaviour. ACAD_AC also has a positive and significant impact on tax governance ($\beta = 0.575$, $p < 0.001$), implying that academic directors promote the formal oversight and disclosure of taxes. Tax governance also has a strong negative influence on tax avoidance ($\beta = -0.403$, $p < 0.001$), indicating that it is an effective internal control measure. Agency Problem and Tax Avoidance: Contrary to the expectation of agency theory, there is a positive weak effect of agency problem on tax avoidance. However, the value of the interaction term (AGENCY × ACAD_AC) is not significant, meaning that academic directors do not moderate the relationship between agency and tax avoidance. With regard to the control variables, tax avoidance is positively related to leverage and firm size. However, audit quality, capital intensity, profitability growth and inventory intensity do not show any significant impact. The primary theoretical associations are largely supported by the direct effects.

Table 10 presents the mediating effect, showing whether the influence of the academic director's presence on tax avoidance through tax governance is statistically significant. The impact of ACAD_AC on TAX_AVOID via TAX_GOV is not direct, but it is significant ($\beta = -0.232$, $p < 0.001$). This suggests that a significant part of the power of academic directors is exerted through the improvement of the tax governance system. The confidence intervals do not include zero, which also implies that the mediation is strong. Therefore, partial mediation is suggested, since the direct effect of ACAD_AC on TAX_AVOID remains significant when controlling for the mediator. This evidence suggests that academic practitioners can reduce tax avoidance through expertise, an ethical stance and effective monitoring. They can also do so indirectly by improving taxation policies and risk oversight or transparency. The results of the mediation process lend support to governance and agency theories. This suggests that tax governance is a significant institutional mechanism through which to understand the impact of board expertise on corporate tax performance.

4.5 Moderation and total effects analysis

Table 11 shows how the role of different people in the company affects the link between tax avoidance and audit committee directors. The negative coefficient of the interaction term (AGENCY × ACAD_AC) indicates a weakening effect of agency conflict on the relationship between academic audit committee directors and tax avoidance. This effect is not significant. The result is $t = 1.044$; $p = 0.297$. The bootstrap bias-corrected confidence interval crosses zero. This suggests a lack of reliable moderation effect. The findings indicate that academic directors are directly responsible for hindering tax avoidance, regardless of the degree of agency problem faced by the firm. In other words, the financial expertise of academic committees is likely operating as an unconditional mechanism rather than a conditional one to mitigate agency problems. This implies that the monitoring effect of academic directors is present in all agency environments and does not increase when agency conflict is higher.

Aggregated effects are reported in Table 12. These are the combined indirect and direct effects. They are from the structural model. The presence of academic directors has a strongly negative overall effect on tax avoidance, which is significant ($\beta = -0.808$; $p < 0.001$).

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This suggests that academic directors generally have a strong interest in aggressive tax behaviour. This value is a combination of the direct and indirect effects via tax governance. The total effect of tax governance on tax avoidance remains strongly significant and negative. This further cements its role as a fundamental transmission mechanism. The results show that there are positive and statistically significant total effects resulting from agency conflict and leverage. This suggests that when debt and financial risk are associated with greater agency costs, it may increase the motivation to engage in tax avoidance. Firm size also shows a significantly positive total effect, which supports political cost and resource-based arguments. Significant total effects are not exhibited by audit quality, capital intensity, inventory intensity, profitability and sales growth. The total effects analysis suggests that the most significant influences on corporate tax outcomes are academic audit committee expertise and tax governance.

Effect size (f^2) values, representing the proportion of variance in endogenous variables explained by each exogenous construct, include in Table 13. Academic director presence demonstrates a default high impact on tax avoidance (f^2 = 1.565) and tax governance (f^2 = 0.494), underlining its predominant mediating effect within the model. The effect size of tax governance on tax avoidance is also very substantial (f^2 = 0.704), highlighting the substantive importance and that it is not just a statistically significant variable as a corporate governance device in place. Agency conflict and leverage present medium effect size, which means they significantly but marginally affect tax avoidance. The size of the firm has an a small but non-negligible impact. By contrast, the effect sizes of audit quality, capital intensity, inventory intensity, profitability, sales growth and the moderation term are small indicating that their practical significance is rather limited despite being included as control variables. The f^2 analysis in general supports the conclusion that academic expertise of the audit committee and tax governance are relatively more important drivers in explaining corporate tax avoidance.

Table 7. VIF Values

Structural Path	VIF
ACAD_AC > TAX_AVOID	1.571
ACAD_AC > TAX_GOV	1.000
AGENCY > TAX_AVOID	1.058
Big4_Auditor > TAX_AVOID	1.192
CAPINT_9yr_Avg > TAX_AVOID	1.060
INVINT_9yr_Avg > TAX_AVOID	1.028
LEV_9yr_Avg > TAX_AVOID	1.047
ROA_9yr_Avg > TAX_AVOID	1.074
SALES_GROWTH_9yr_Avg > TAX_AVOID	1.063
SIZE_9yr_Avg > TAX_AVOID	1.076
TAX_GOV > TAX_AVOID	1.705
AGENCY × ACAD_AC > TAX_AVOID	1.072

Table 8. Coefficient of Determination (R^2)

Endogenous Construct	R^2	Adjusted R^2
TAX_AVOID	0.865	0.856
TAX_GOV	0.331	0.327

Table 9. Direct effects path coefficients

Hypothesis	Structural Path	β (O)	t-value	p-value	Result
H1	ACAD_AC > TAX_AVOID	−0.576	15.998	0.000	Supported
H2	ACAD_AC > TAX_GOV	0.575	12.193	0.000	Supported
H3	TAX_GOV > TAX_AVOID	−0.403	11.36	0.000	Supported
H4	AGENCY > TAX_AVOID	0.153	4.899	0.000	Supported
H5	AGENCY × ACAD_AC > TAX_AVOID	−0.033	1.044	0.297	Not supported
C1	Big4_Auditor > TAX_AVOID	0.046	0.741	0.459	Not significant
C2	CAPINT_9yr_Avg > TAX_AVOID	0.04	1.464	0.143	Not significant
C3	INVINT_9yr_Avg > TAX_AVOID	0.036	1.183	0.237	Not significant

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Hypothesis	Structural Path	β (O)	t-value	p-value	Result
C4	LEV_9yr_Avg > TAX_AVOID	0.159	5.674	0.000	Significant
C5	ROA_9yr_Avg > TAX_AVOID	0.034	1.129	0.259	Not significant
C6	SALES_GROWTH_9yr_Avg > TAX_AVOID	−0.012	0.409	0.682	Not significant
C7	SIZE_9yr_Avg > TAX_AVOID	0.125	4.187	0.000	Significant

Table 10. Indirect Effects and Mediation Analysis

Mediation Path	Indirect Effect (β)	t-value	p-value	Mediation Type
ACAD_AC → TAX_GOV → TAX_AVOID	−0.232	7.984	0.000	Partial mediation

Table 11. Moderating effect of agency conflict

Interaction Path	β (O)	t-value	p-value	95% CI (BCa)	Result
AGENCY × ACAD_AC → TAX_AVOID	−0.033	1.044	0.297	[−0.095 ; 0.028]	Not supported

Table 12. Total Effects of the Structural Model

Structural Path	(β)	t-value	p-value	Result
ACAD_AC → TAX_AVOID	−0.808	30.329	0.000	Significant
ACAD_AC → TAX_GOV	0.575	12.193	0.000	Significant
AGENCY → TAX_AVOID	0.153	4.899	0.000	Significant
TAX_GOV → TAX_AVOID	−0.403	11.36	0.000	Significant
Big4_Auditor → TAX_AVOID	0.046	0.741	0.459	Not significant
CAPINT_9yr_Avg → TAX_AVOID	0.040	1.464	0.143	Not significant
INVINT_9yr_Avg → TAX_AVOID	0.036	1.183	0.237	Not significant
LEV_9yr_Avg → TAX_AVOID	0.159	5.674	0.000	Significant
ROA_9yr_Avg → TAX_AVOID	0.034	1.129	0.259	Not significant
SALES_GROWTH_9yr_Avg → TAX_AVOID	−0.012	0.409	0.682	Not significant
SIZE_9yr_Avg → TAX_AVOID	0.125	4.187	0.000	Significant

Table 13. Effect Size (f^2) Analysis

Structural Path	f^2 Value	Effect Size
ACAD_AC → TAX_AVOID	1.565	Large
ACAD_AC → TAX_GOV	0.494	Large
TAX_GOV → TAX_AVOID	0.704	Large
AGENCY → TAX_AVOID	0.163	Medium
LEV_9yr_Avg → TAX_AVOID	0.178	Medium
SIZE_9yr_Avg → TAX_AVOID	0.108	Small
Big4_Auditor → TAX_AVOID	0.003	Negligible
CAPINT_9yr_Avg → TAX_AVOID	0.011	Negligible
INVINT_9yr_Avg → TAX_AVOID	0.009	Negligible
ROA_9yr_Avg → TAX_AVOID	0.008	Negligible
SALES_GROWTH_9yr_Avg → TAX_AVOID	0.001	Negligible
AGENCY × ACAD_AC → TAX_AVOID	0.007	Negligible

Table 14. Predictive Relevance (Q^2)

Construct	SSO	SSE	Q^2 (Redundancy)	Predictive
TAX_AVOID	360	70.553	0.804	Large
TAX_GOV	720	528.82	0.266	Medium

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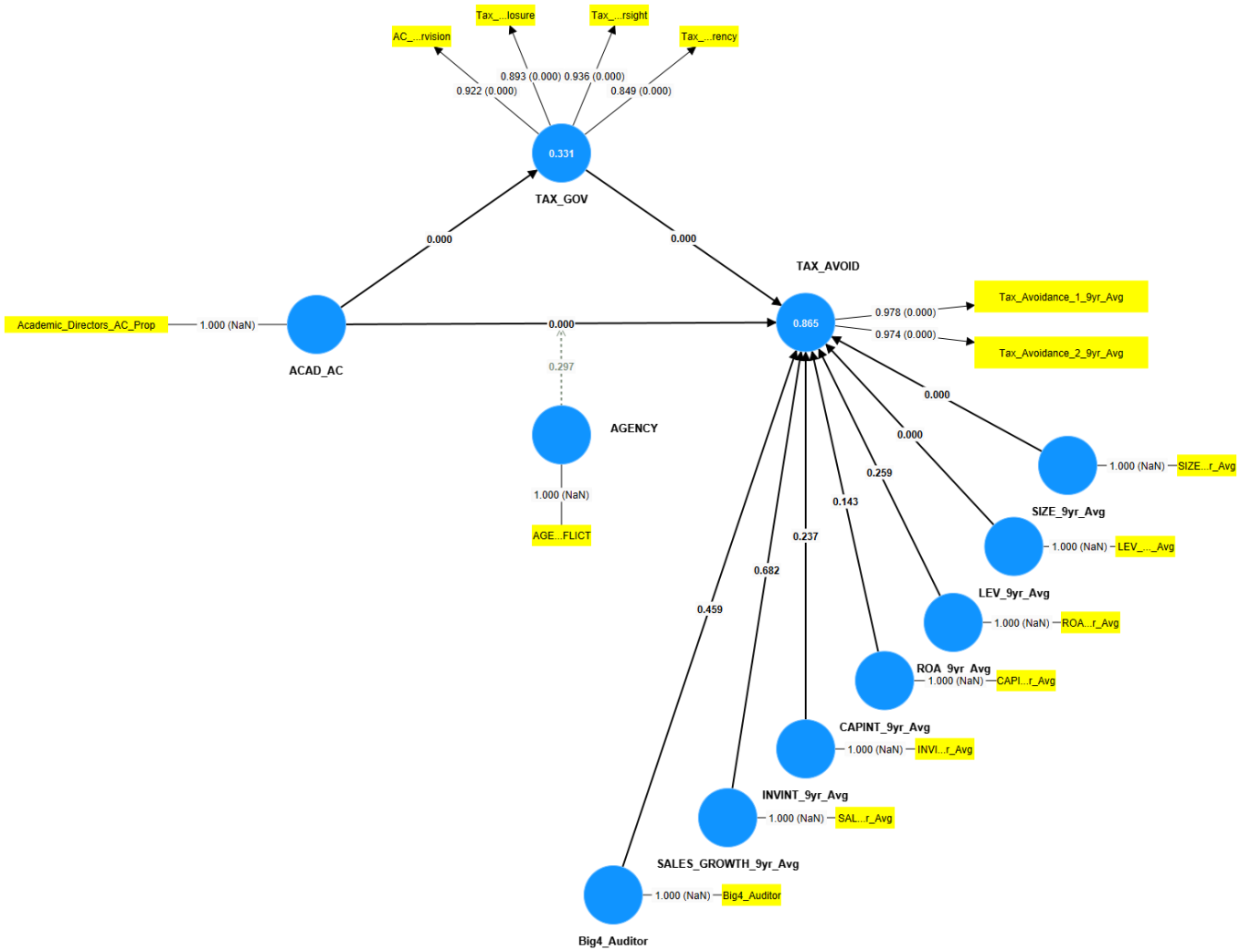

Figure 3. Structural model (inner model)

4.6 Predictive relevance

The predictive ability of the structural model is presented in Table 14. This is based on BLIN estimation procedure in terms of cross-validated redundancy (Q^2) values. The Q^2 value for TAX_AVOID (0.804) is significantly above zero, indicating the model's target variable has very strong predictive power. The findings indicate that a combination of academic directors, tax governance and agency conflict with those controls at the firm level is effective in enhancing the prediction accuracy of corporate tax avoidance, both out of sample and in full sample. Furthermore, the Q^2 value for TAX_GOV is 0.266, indicating moderate predictive validity with regard to tax governance activities. The positive Q^2 values obtained for both endogenous constructs suggest that the model is not only explanatory, but also predictive. The reliability of the framework is enhanced by these findings, which demonstrate that the relationships identified by PLS-SEM can be used to make valid predictions about observations that have not been previously used. The model's appropriateness for explaining and predicting corporate tax governance and tax avoidance outcomes in EM environments is supported by the results of the predictive validity analysis.

4.7 Discussion

This paper offers valuable evidence with regard to how AC composition (especially the presence of academic directors) influences internal governance and corporate tax behavior. Based on agency theory, their results also help inform the debate that corporate tax avoidance is not just a technical tax-planning decision but also reflects a governance consequence based up monitoring quality and manager incentives (Jensen &

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Meckling, 1976; Desai & Dharmapala, 2006; Armstrong et al., 2010; Chen et al., 2010). Academic directors seem to act more as good cops than tax strategists, which is in line with the contention that individuals who are embedded in reputation-based considerations are less tolerant toward aggressive or secretive tax practices (White et al., 2014; Francis et al., 2015; Dyreng et al., 2019; Chen, Yu, & Yeung, 2026). This is consistent with earlier governance studies highlighting that the diversity of directors matters in terms of corporate outcomes, especially when monitoring activates are related to high regulatory and reputational risks (Badolato et al., 2014; Lanis et al., 2017).

Finally, the debate underscores that tax governance quality is an important mediating internal mechanism to be considered when academic expertise has a bearing on tax outcomes. Instead of directly curbing tax avoidance as a stand-alone policy tool, academic directors serve in shaping formalised tax policies and better monitoring of tax risks and increasing transparency that reduce managerial discretion to act on taxes (Graham et al., 2014; Armstrong et al., 2015; Wilde & Wilson, 2018; Dyreng et al., 2019). This changes the new contribution of the relation which is based on modeling governance processes that intervene between the influence board and audit committee features. In viewing tax governance as a multifaceted phenomenon, this paper listens to the calls in literature for the transcending of outcome-oriented assessments and investigation into the institutional underpinnings of taxconduct within firms (Hanlon & Heitzman, 2010; Lanis & Richardson, 2018; Richardson et al., 2016).

Theoretically, the results suggest that there is a significant positive effect of reputational capital theory on academic governance functions in sensitive policy areas. Academics typically demonstrate integrity and ethical behaviour to gain status as professionals, and they are assumed to be overly sensitive to activities that may trigger regulatory attention or public censure (Fombrun & Shanley, 1990; White et al., 2014; Cho et al., 2017; Chen et al., 2019). When it comes to tax planning, aggressive plans can bring about short-term gains. But they can also increase long-run exposure. So academic directors also seem more likely to prefer conservative and clean strategies. Research has shown that directors who are incentivised based on their reputation place a significant focus on complying with regulations and reducing risk, rather than opportunistically seeking value (Francis et al., 2015; Dyreng et al., 2019; Hossain et al., 2005).

The conversation also highlights the importance of internal governance mechanisms in settings where external enforcement is weaker or asymmetric. Studies indicate that ownership concentration and low regulatory efficacy are likely to exacerbate agency conflicts between managers and controlling shareholders in emerging and developing economies, making them more inclined towards opportunistic tax avoidance (Fan & Wong, 2005; Chan et al., 2016; Lo et al., 2010; Kim et al., 2011). In these environments, audit committees and their critical mass of expertise exert a much larger influence on corporate behaviour. The results expand the scope of institutional theory by illustrating how companies respond to pressures regarding their legitimacy by making internal governance adjustments when external enforcement is either ineffective or inconsistent (Arsyad, 2015; Barney, 2000; Wilde & Wilson, 2018).

Furthermore, this study contributes to the ongoing debate surrounding the advisory and monitoring roles of external directors. The idea that directors can offer managers valuable knowledge or resources, as suggested by resource dependence theory (Audretsch, David B., 2014; Hillman et al., 2009; Scott, 1981), is not always supported by evidence. In fact, studies show that academic directors' main value in terms of tax-related issues is in supervisory roles rather than as advisors. Their theoretical knowledge and ethical disposition support structures of command, but not necessarily abusive fiscal optimisation. This subtle distinction helps to clarify the mixed evidence on whether one resume item is more effective than another (Gallemore, 2019; Gallemore & Jacob, 2025; Zhu et al., 2026) , and highlights the need to match director background with certain governance duties.

In the context of global relevance, the findings have clear implications for current policy debates about responsible taxation, ESG governance, and corporate accountability. Intergovernmental organisations and regulators are increasingly putting forward recommendations that contribute to transparency and ethical behaviour in taxation, which are seen as inseparable elements of sustainable business practices (OECD, 2014; OECD, 2020; KPMG, 2021). By demonstrating the beneficial effects of audit committee members' academic backgrounds on tax governance and aggressive tax avoidance, this paper sheds light on the

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extent to which board composition can play a significant role in promoting responsible tax conduct across nations. The findings suggest that promoting audits with a range of experts on the committee may help to reduce tax avoidance.

The research's innovative nature is evident in its comprehensive framework, which integrates academic directors with tax governance, quality and corporate tax avoidance. This study is different from previous research because it looks at how the way the board is set up affects tax outcomes. It does this by theorising and investigating the governance channels through which expertise influences outcomes. We develop process-based insights into tax governance by doing this, and we also contribute to a more nuanced theory of how expertise at the board level influences corporate behaviour in complex regulatory fields. Research into other types of expertise and governance pathways impacting responsible corporate behaviour outside taxation may be possible in future, as this line of inquiry paves the way.

5. Conclusion

The effect of academic directors on audit committees concerning corporate tax avoidance is examined, and the governance mechanism that underlies this relationship is explained. Drawing on agency theory, reputational capital theory and corporate governance theory, our research shows that the expertise of academic audit committees mainly serves as a monitoring tool to limit opportunistic tax behaviour, rather than as a conduit for advice on tax planning. It is vital to note that the findings indicate tax governance quality as a key intermediary that communicates the impact of academic knowledge to corporate tax results. Academic directors narrow managerial discretion in tax-relevant decision-making by improving tax system efficiency, risk control, and transparency. The study makes a significant contribution to our understanding of corporate tax avoidance by offering a process-oriented perspective. It underscores the pivotal role that expertise-based internal governance mechanisms play, particularly in contexts where external enforcement is lax and agency challenges are pronounced.

Theoretical implications

The study adds to agency theory by showing that problems related to taxes can be moderated by a supervisory focus on expertise rather than structural independence per se. The study enriches the field of reputational capital theory by showing how directors with a significant stake in their company's reputation, like academics, influence corporate actions through their conservative governance decisions. Moreover, the research makes a valuable addition to corporate governance literature by suggesting that tax governance is a unique and observable channel through which board expertise influences tax performance.

Practical implications

The findings suggest that audit committees could enhance their internal monitoring capabilities related to taxing decisions, and reduce their liability risk from regulators and stakeholders, if they hire academic directors. In areas of governance that are complex by nature, such as tax, it would be beneficial for boards to consider not only the formal independence of audit committee members, but also their ethical orientation and analytical skills.

Policy implications

Efforts to encourage transparency in audit committee composition and expertise are supported at a policy level, with favourable results. Regulators and standard-setters are encouraging greater disclosure of tax governance practices and the professional backgrounds of audit committee members. This may be seen as part of a broader ESG and responsible taxation framework.

Limitations

The study looks at academic directors as a group made up of individuals with similar characteristics, regardless of their academic discipline or the level of practical tax experience they have. The company's internal governance mechanisms are the focus here, with no mention of relations with external auditors or tax agencies.

Future research directions

The governance–tax relationship could be investigated in cross-country settings by extending the model to include other governance mechanisms, such as internal controls and audit quality. The heterogeneity across academic directors could also be investigated in future research.

Credit authorship contribution statement

Sintia Nurlitasari: Conceptualization, methodology, data curation, formal analysis, software, writing – original draft; visualization. **Umatun Markhumah:** Conceptualization, supervision, validation,

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writing – review & editing, theory framing and interpreting results.

Declaration of Competing Interest

The authors do not have any known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Data availability

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The datasets used and/or analyzed during the current study are available from the corresponding author on reasonable request. The data was collected and analyzed in compliance with ethical research standards, and is available for the academic noncommercial use.

Appendix Table Data

Appendix A Sample selection and research period

The sampling method used in this research is purposive. Selection of firms Firms were chosen if complete governance, financial and tax data were available for the ten years observation period. Banking was outside the purview of this study because of the unique regulatory landscape and tax implications

Appendix B. Variable definitions and measurement

Variable name	Code	Measurement	Description	Source
Academic directors on audit committee	ACAD_AC	Proportion	Ratio of academic directors to total audit committee members	Board annual reports
Tax governance quality	TAX_GOV	Index	Composite index of tax policy, risk oversight, transparency, and audit committee supervision	Annual & sustainability reports
Corporate tax avoidance	TAX_AVOID	Multi-proxy	Inverse of ETR and CETR	Financial statements
Agency conflict	AGENCY	Ratio	Ownership concentration minus board independence	Corporate governance reports
Firm size	SIZE	Logarithmic	Natural log of total assets	Financial statements
Leverage	LEV	Ratio	Total liabilities divided by total assets	Financial statements
Profitability	ROA	Ratio	Net income divided by total assets	Financial statements
Capital intensity	CAPINT	Ratio	Fixed assets divided by total assets	Financial statements
Inventory intensity	INVINT	Ratio	Inventory divided by total assets	Financial statements
Audit quality	BIG4	Dummy	Equals 1 if audited by Big Four, 0 otherwise	Audit reports

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