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The Effect of Tax Strategy on the Optimal Use of Resources by Management with an Emphasis on the Manager Competence and Corporate Governance

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ABSTRACT

This research aims to examine the impact of tax strategies on the optimal use of resources in companies listed on the Tehran Stock Exchange, with particular attention to management competence and corporate governance mechanisms. The sample comprises 116 companies listed on the Tehran Stock Exchange over a ten-year period from 2014 to 2023. Data analysis was conducted using EViews software, employing statistical tests and fixed-effects multivariate linear regression with panel data to test hypotheses. Results indicate that tax strategies, based on criteria of abnormal tax avoidance and tax sheltering, significantly and negatively affect the optimal use of resources. Furthermore, management competence positively influences the optimal use of resources and moderates the negative effect of tax strategies (specifically abnormal tax avoidance), mitigating it as competence increases. Similarly, corporate governance positively affects the optimal use of resources and moderates the negative impact of tax avoidance (based on abnormal tax avoidance and tax sheltering), enhancing resource allocation efficiency.

1. Introduction

Tax planning, when aligned with the efficient use of company resources to create shareholder value, reflects management's stewardship role by requiring sufficient skill and oversight from relevant institutions. More competent managers can channel gains from tax avoidance strategies to enhance the optimal use of resources. Corporate governance mechanisms can deter tax avoidance for personal gain. Management competence also plays a critical role in interactions with shareholders. More capable managers possess superior knowledge and skills, enabling more accurate assessments and estimates. Thus, this study investigates the effect of tax strategy on the optimal use of resources, with an emphasis on management competence and corporate governance.

2. Research Questions or Hypotheses

Directing funds from corporate tax strategies toward value-creating resource allocation is critical in Iran, particularly given the limited focus on management competence and the underdeveloped state of corporate governance mechanisms. These factors are essential for aligning tax strategies with stakeholder interests. The research question is: How does the optimal use of resources respond to tax strategies, and how do management competence and strong corporate governance influence this relationship? The research hypotheses are:

H1: Tax strategies significantly affect the optimal use of resources.

H2: Management competence significantly moderates the relationship between tax strategy and the optimal use of resources.

H3: Corporate governance significantly moderates the relationship between tax strategy and the optimal use of resources.

3. Methods

The sample comprises 116 companies listed on the Tehran Stock Exchange over a ten-year period from 2014 to 2023. Tax strategy was defined as the independent variable, optimal use of resources as the dependent variable, and management competence and corporate governance as moderators. Data were analyzed using EViews software, employing statistical tests and fixed-effects multivariate linear regression with panel data to test hypotheses.

4. Results

Results indicate that tax strategies (based on criteria of abnormal tax avoidance and tax sheltering) significantly and negatively affect the optimal use of resources. Furthermore, management competence positively influences the optimal use of resources and moderates the negative effect of tax strategies (specifically abnormal tax avoidance), mitigating it as competence increases. Similarly, corporate governance positively affects the optimal use of resources and moderates the negative impact of tax avoidance (based on abnormal tax avoidance and tax sheltering), enhancing resource allocation efficiency.

5. Discussion and Conclusion

These findings suggest that tax avoidance impairs the optimal use of resources. This implies that such strategies may serve the personal interests of managers, potentially increasing conflict between internal and external stakeholders and leading to a decrease in company value. Furthermore, enhanced management competence improves the optimal use of resources and mitigates the negative impact of tax avoidance. More competent managers prioritize stewardship, leveraging their expertise to maximize company value over personal gain. Strong corporate governance mechanisms incentivize efficient resource allocation, aligning tax strategies with stakeholder interests. Based on these results, legislators are recommended to evaluate management competence as a rating indicator, similar to other metrics, and promote the operational implementation of corporate governance tools. Additionally, companies should be ranked based on governance quality and transparency. Potential shareholders are advised to consider management qualifications and governance quality when analyzing corporate tax strategies.

Keywords: Tax Strategy, Optimal use of Resources, Management Competence, Corporate Governance.