Article

Tax Policy - Integrating Investment Tax Allowance and Corporate Governance by Institutionalisation Process: A Conceptual Paper

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Abstract – This paper presents the conceptual perspective on integration of investment tax incentives programs and corporate governance through institutional processes in government, with the aim of building a sustainable economic environment. The concept is to enhance the tax policy by shifting the conventional view of investment tax incentives program and corporate governance to a shared tax policy between government and corporations. The integration is expected to lead towards the goal of supporting the government's ability to generate sufficient revenue to finance socio-economic development activities
Keywords: "Investment Tax Incentives program", "Corporate Governance", "Institutional Process".

1. Introduction

Governments always aim to provide the best socio-economic development and infrastructure to their people. This requires a solid economic environment that generates sufficient revenue to finance government operations and budget plans. While governments strive to generate as much tax revenue as possible, they also offer attractive investment tax incentives that can be counterproductive to tax revenue generation. These incentives are designed to persuade corporations to continue their corporate investment, even though they take on risks to pursue profitable ventures. A weak link between government and corporations in the revenue system can jeopardise the government's ability to finance socio-economic development programs (Agbe et al, 2017). As the economic conditions in 2023 are expected to be challenging, it is crucial for the government and corporations to align their in-tax policy to foster a solid economic and investment climate, which will ultimately promote economic growth. In Malaysia, as it braces for a deep economic recession in 2023, appropriate tax policies are needed to ensure a revenue system that creates a sustainable economic environment. With this perspective of background, this paper will suggest a conceptual overview of establishing a sustainable revenue system in the context of an investment tax incentive program and corporate governance.

The remainder of the paper is organised as follows: Section 2 reports on the literature on the effects of changes in the tax mix between major categories of taxes at the macroeconomic

level, drawing on the OECD study. Section 3 discusses the underlying theories of neoclassical theory of investment and agency theory, which share the common objective of profit maximisation. Section 4 examines the development of tax policy and challenges facing tax policy in building a sustainable economic environment. Section 5 provides justification for integrating investment tax programs and corporate governance in tax policy. Section 6 presents the public revenue system, which is highly dependent on the economic environment. Section 7 emphasises the importance of investment in the revenue system to build a sustainable economic environment. Section 8 discusses the institutional process of sharing the government's inspiration for investment tax incentives and corporate governance. Finally, section 9 summarises the conceptual perspective of integrating investment tax incentives and corporate governance.

2. Literature Review

Numerous studies have shown that tax policy has a significant influence on building a sustainable economic environment and promoting recovery. It is a key factor in investment decision-making, as it signals the government's attitude towards investment through taxation. The impact of taxation on the economic environment varies across countries in both the short and long term. Many studies have utilised growth models with varying specifications to test the and determine the direction and degree of the impact of tax policies across countries using empirical data. These models often incorporate standard growth variables, such as physical capital, human capital, and labour force growth (Abdi, 2008).

Firstly, the classical study by Kneller et al. (1999) used an annual panel dataset of twenty-two (22) countries within the Organization for Economic Co-operation and Development (OECD) over the period of 1970 to 1995 to examine the impact of fiscal policy on growth. The approach included the complete specification of the government budget constraint, including revenue and expenditure. The study found that increasing direct taxation would significantly reduce economic growth.

Secondly, the study by Greenidge & Drakes (2010) utilised an unrestricted error correction model to examine tax policy and its effect on macroeconomic activity in Barbados. The study found that total and indirect taxation had a contractionary impact on the economy in the short run with no long-run impact, while direct taxation had a negative impact on growth in both short and long run.

Thirdly, in the study by Romer & Romer (2010), the impact of tax changes on economic growth in the United States during the post-war period was investigated. The study employed information on legislative tax changes gathered from narrative sources, including presidential speeches. The study regressed changes in real GDP over the period 1947 to 2007. The regression results showed that tax changes have a significant positive effect on output, resulting in a reduction between 2.5% and 3.0%.

Fourthly, Arnold et al. (2011) examined the long-run relationship between tax structures and economic growth within the OECD using an error correction model with annual panel data of 51 countries. The model included individual tax indicators (expressed as a share of total tax revenue), along with the typical growth variables (physical and human capital and population growth) as well as a control variable, tax revenue to nominal GDP. The explanatory variables, including the lagged dependent variable, were used in both levels and

first differences to account for transitional dynamics. The study indicated that in the long run, economic growth could be improved by gradually increasing taxes on consumption and immovable property, as well as improving the design of individual taxes. Meanwhile, personal and corporate income taxes, consumption, and immovable property taxes had the least harmful impact on long-run GDP per capita. The study also suggested that reducing income taxes on low-income earners would be the best option for increasing economic growth and aiding economic recovery.

A study by Scarlett (2011) shows that any policy action aimed at increasing the pay-as-you earn (P.A.Y.E) tax would have a negative and significant impact on GDP per capita over time. Additionally, this negative impact will take approximately 9 quarters to correct. Greater benefit would be derived by reducing the taxation on personal income if the objective is to stimulate demand. With the country currently in a recovery phase, tax policy strategy aimed at stimulating demand is important.

In the study by Taha et al. (2018), an attempt was made to establish the plausibility and dynamic nexus between financial developments, economic growth, and tax revenue in Malaysia. The study employed annual time series data covering the period of 1970 to 2015 and used advanced co-integration and causality analysis, The study found strong evidence on the taxes-growth nexus for Malaysia of an inverted U-shaped relationship. According to the study, the inverted U-shape reflects the economic condition in which the nexus between economic growth and tax revenue depends on fiscal policies in the creation of a transparent and mature financial system to improve government revenue.

3. Theories

There are two theories underlying the concept of institutionalisation of investment tax incentive programs and corporate governance. The two theories are neoclassical theory of investment and agency theory. These theories are usually studied in separate paradigms.

3.1. Neoclassical Theory of Investment

The neoclassical theory of investment starts from a corporations' optimisation behaviour. The objective of the firm is to maximise the present discounted value of net cash flows subject to the technological constraints summarised by the production function.

The neoclassical (Jorgenson) approach is most suitable for estimating a domestic fixed investment function as it has to be consistent with a supply-side model that incorporates all cost-minimising and profit-maximising decision-making processes by corporations. According to neoclassical theory, capital will be employed until the marginal cost of capital equals the marginal product of capital. Jorgenson (1963), the pioneer of neoclassical theory, defines the cost of capital as the cost that the firm incurs as a consequence of owning an asset. The cost of capital transforms the acquisition price of an asset into an appropriate rental price, which depends on the rates of return and depreciation. The rate of return is the opportunity cost of holding capital goods rather than financial assets. Depreciation arises from the decline in the price of capital goods with age (Jorgenson, 1993).

The neoclassical theory of capital accumulation is formulated in two alternative yet equivalent ways. First, the firm may accumulate capital to supply services. The objective of the firm is to maximise its value, subject to its technical limitations. Secondly, the firm may

rent assets to obtain capital services. In this case, the firm aims to maximise its current profit, which is calculated as gross revenue minus the cost of inputs and the rental cost of capital. The rental can be calculated from the relationship between the price of new capital goods and the discounted value of future services received from these goods (Jorgenson, 1993)[1].

Tax incentives reduce the cost of capital and improve companies' profit margins, as theorised in the neoclassical theory of investment (Crotty, 1992; Sandmo, 1974). The importance of real investment has been explained by the neoclassical theory of investment pioneered by Jorgenson (1963). The theory explains that companies maximise profits or the present value of their firm by adjusting their stock of capital. The neoclassical theory of investment establishes that investment, which is an addition to the stock of capital in an economy, is determined by the marginal product of capital and the user cost of capital (Lee & Rabanal, 2010).

The term marginal product of capital measures the additional production resulting from using an additional unit of capital, while holding labour and technology constant. User cost of capital refers to the price of capital that demonstrates the role of tax incentives in reducing the user cost of capital, either directly or indirectly. The lower the user cost of capital, the higher the probability of profitability of investment. This is how the neoclassical theory of investment explains the grounds behind companies' investment. The neoclassical theory of investment has been widely applied in economics and investment studies, such as Hulten (1991), Gomes (2001), and Bond, Elston, Mairesse, and Mulkay (2003), in explaining the rationale of company investments.

3.2. Agency Theory

Generally, agency theory takes different perspectives. The agency theory view of corporate governance of a corporation is based on the assumption that the relationship between the principal (the owner), the intermediate (the board of directors), and the agent (the top management) functions as a distinct chain of command. On the other hand, the governance process in family firms does not easily fit into the corporate governance description of a corporation. The key reason is that the three levels of the chain of command, namely owners, board, and top management, are composed of the same individuals from the same family (Wortman, 1994; Gersick *et al.*, 1997).

In explaining agency costs in the corporate perspective, Jensen and Meckling (1976) defined the agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this relationship, the principal delegates some decision-making authority to the agent. These agency problems arise: it is impossible to perfectly contract for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal, according to Brennan (1995b). A problem arising from this is how to induce the agent to act in the best interests of the principal. Managers bear the entire cost of failing to pursue their own goals but capture

[1] According to Jorgenson (1993), in the absence of direct taxes, this relationship takes the form:

where r is the discount rate, *q* the price of capital goods, *c* the cost of capital services and the rate of replacement (depreciation). The time of acquisition is given by *t* and *s* is the period over which capital services are supplied (Jorgenson, 1993). Differentiating this with respect to *t* gives which is the rental price of capital services supplied by the firm to itself.

To extend the formula to allow for taxation, Jorgenson (1993) defines a depreciation formula *D(s)* which is used to calculate the proportion of the original cost of an asset of age *s,* which may be deducted from taxes. Jorgenson also assumes a tax credit *k,* which can be deducted from investment expenditure. If the tax rate is constant over time at rate *u,* the equality between the price of investment goods and the discounted value of capital services is:

The present value of depreciation on one rand's worth of investment is denoted by *z.* The rental value of capital under static expectations then becomes:

The effect of tax policy on investment behaviour enters the investment function through the rental value of capital. This results in a change in the desired level of capital. Such a change leads to net investment (or disinvestment), increasing (or decreasing) capital stock to its new desired level (Jorgenson, 1993).

only a fraction of the benefits. Jensen and Meckling (1976) argue that this inefficiency is reduced as managerial incentives to take value maximising decisions are increased. As with any other costs, agency problems will be captured by financial markets and reflected in a company's share price. Agency costs can be seen as the value loss to shareholders, arising from divergences of interests between shareholders and corporate managers. Jensen and Meckling (1976) also defined agency costs as the sum of monitoring costs, bonding costs, and residual loss.

Most existing studies are based on the argument that agency costs are minimised in family (owner-managed) firms since the owners and the management are the same individuals (Jensen and Meckling, 1976; James, 1999b; Ang *et al*., 2000). In such a situation there is no need for incentives to ensure that the agent acts for the best of the principal.

Studies of compensation structure have generally found that director remuneration is an increasing function of company size (Jensen and Murphy, 1990), providing management with a direct incentive to focus on size growth, rather than growth in shareholder returns. Jensen (1986) argued further that managers prefer to retain earnings, whereas shareholders prefer higher levels of cash distributions, especially where the company has few internal positive NPV investment opportunities within the firm's existing business operations (internal investment) and making a non-related takeover as an investment decision, potentially with the main purpose of diversifying operations (external investment).

The two perspectives of agency theory show the complexity of the corporate governance environment. Regardless of corporation or family firm perspectives, both share the same objective of maximising the interest of profit.

3.3. Integration of Neoclassical Theory of Investment and Agency Theory

The neoclassical theory of investment and agency theory share a common objective, namely profit maximisation. On the one hand, the neoclassical theory of investment posits that investment tax incentives lower the cost of capital, so corporations continue to invest until the marginal cost of capital diminishes to zero, where additional investment brings no profit. On the other hand, agency theory argues that conflict between owners and executives of a corporation, if not solved, can hinder the corporation's profit maximisation objective. In the best situation, executives should act to maximise the interests of owners in terms of profit-making objectives.

4. Tax Policy Development and Challenges

Understanding the development of tax policy to the current state of the revenue system is important to justify the integration of investment tax incentives and corporate governance in tax policy. The world's economic conditions seem to be very challenging after the COVID-19 pandemic. As a country that depends significantly on global economic trends, Malaysia has to manoeuvre its revenue system and tax policy to be more sustainable. To succeed, the exercise must comprehend the current state of tax policy development and challenges.

4.1. Overly Generous and Comprehensive

Malaysia is known offeror offering overly generous and comprehensive tax incentives for investment (World bank, 2006). This can be seen in the comprehensive list of incentives that the government offers to investors. According to the Malaysian Institute of Accountants

(2016), the Malaysian government provides a complete list of incentives to almost all sectors of the economy. Among these incentives are 100% tax exemption on statutory income for a period of 5 years given to pioneer companies located in promoted areas, up to 100% tax exemption on qualifying capital expenditure for companies participating in promoted activity or product under investment tax allowance, and indefinite utilisation of unabsorbed tax allowances. The revenue system should balance the tax incentive program in the investment and business promotion strategies to avoid harmful race-to-the-bottom traps (Abbas & Klemm, 2013) and crowding-out effect (Bronzini & Iachini, 2014).

4.2. Lack of Integration

With comprehensive investment tax incentives across various sectors of the economy and a 5-year period of incentives, the momentum of real corporate investment is highly likely to slow down after the period expires (Schwartz et al., 2008). As a result, the government needs to continue the incentives for another 5 years, which means incurring additional tax expenditure. The practice continues as long as the government is unaware of the expensive tax expenditure. The additional tax expenditure was construed as more tax revenue loss from the tax revenue system. Invisibly, the tax revenue system is burdened with accumulated tax expenditure that can undermine the ability to generate adequate tax revenue for the government.

4.3. Base Erosion and Profit Shifting (BEPS)

Base erosion and profit shifting witness the loss of economic foundation due to harmful profit maximisation activities (OECD, 2018). Corporations can transfer their investments to more profitable countries when their investment does not meet their profit maximisation objective. Multinational corporations take advantage of countries' competitive advantages in terms of supply chain connectivity, cheap labour, natural resources, and telecommunication advancement to realise their dream. Without sharing the inspiration of the government in building a sustainable economic environment, investment tax incentives enjoyed are highly likely to be expensive tax expenditures when the corporations leave the country once they exhaust the investment tax incentives. The good corporate governance mechanisms of institutional processes ensure corporations nurture responsibility to invest for future opportunities. The institutional process of investment tax incentives and corporate governance integration instils accountability and commitment beyond the profit maximisation motive.

4.4. Transfer Pricing

Competitive investment environments among the countries escalate the problem of transfer pricing, especially among multinational corporations. Multinationals always capitalise on countries' competitive advantages to maximise their profitability (McGahan & Victer, 2010). The cross-border operations of multinationals enable corporations to achieve economies of scale, turning the specific countries' economic advantages into opportunities. The ability to maximise economies of scale facilitates the firm's objective of profit maximisation. To avoid manipulation of transfer pricing, corporations should inculcate a corporate governance culture to have a fair cost allocation among the countries they operate in. The lack of corporate governance mechanisms to curb manipulative transfer pricing activities among multinational corporations' witness shifts in corporate investment after the end of the incentive period, layoffs of employees, and uncollectible tax expenditure. Therefore, sharing the investment tax incentives inspiration in the corporate governance can minimise the manipulative effect of transfer pricing in cross-border operations to achieve economies of scale.

4.5. Global Investment Mobility

Investment mobility is high among multinational corporations that operate in many countries globally. The multinational corporations can virtually invest anywhere globally to hedge the effect of competition. As the competitive environment increases, multinational corporations strategize their operations in different geographical locations to capitalise on host countries' competitive advantages. On the other hand, the competition among host countries in securing investment can lead to harmful tax practices of footloose (James, 2013) and race to the bottom (Agyeman-Budu et al. 2014). The harmful tax practices seem to support low corporate governance integrity. When host countries compete to secure corporate investment, countries may be indebted to corporations and may not observe corporate governance in terms of government's inspiration of building a sustainable economy environment. The host countries are now exposed to the risk of corporations shifting their investment without valid economic justification. Granting investment tax incentives to support real investment activities by lowering the cost of capital in the short term; but, in certain cases, it may cause unnecessary crowding out in sectors of economy (Bronzini & Iachini, 2014; Hanson & Rohlin, 2011; Lokshin & Mohnen, 2013). The weak link between corporate investment and corporate governance practice may result in the failure of economic agglomeration (De Mooij & Ederveen, 2003).

4.6. Tax Corporate Governance Framework

Some tax jurisdictions have introduced the Tax Corporate Governance Framework (TCGF) to manifest the government's commitment to linking investment tax incentives and corporate governance through institutional processes. The TCGF is an initiative carried out by the government to ensure good corporate governance practices in terms of tax. It is one of the best ways to build public-private partnerships (Curran, 2015). One of the main objectives of TCGF is to ensure government inspiration is shared with corporations. The TCGF will enable corporations to comply with tax requirements and manage tax risks through early identification and resolution. The implementation of TCGF is most welcomed to evaluate the extent of corporation commitment to carrying out government inspiration generally and to undertaking corporate real investment specifically. The integration of investment tax incentives and corporate governance into a tax policy is a lengthy process, and the TCGF prepares a platform to foster institutional processes between the government and corporations. The integration and institutional process enhance the public revenue system beyond conventional notions.

5. Tax Policy

5.1. To Recognise Corporate Governance

Corporations require government support in terms of investment-friendly tax policies. Governments should strive to implement tax policies that are welcoming and encourage corporate investment. An investment-friendly tax policy enables governments to develop an agglomeration of the economy. The policy should clearly communicate that the government requires corporate support by conveying complementary roles. On the one hand, the government is willing to forgo tax revenue by granting tax incentives so that corporations can enjoy a lower cost of capital and a speedy pay-out period. On the other hand, corporations should share the sacrifice by providing solid corporate governance and a long-term investment commitment. Therefore, tax policies should enhance the effectiveness of investment tax incentive programs by recognising the corporate governance role in creating

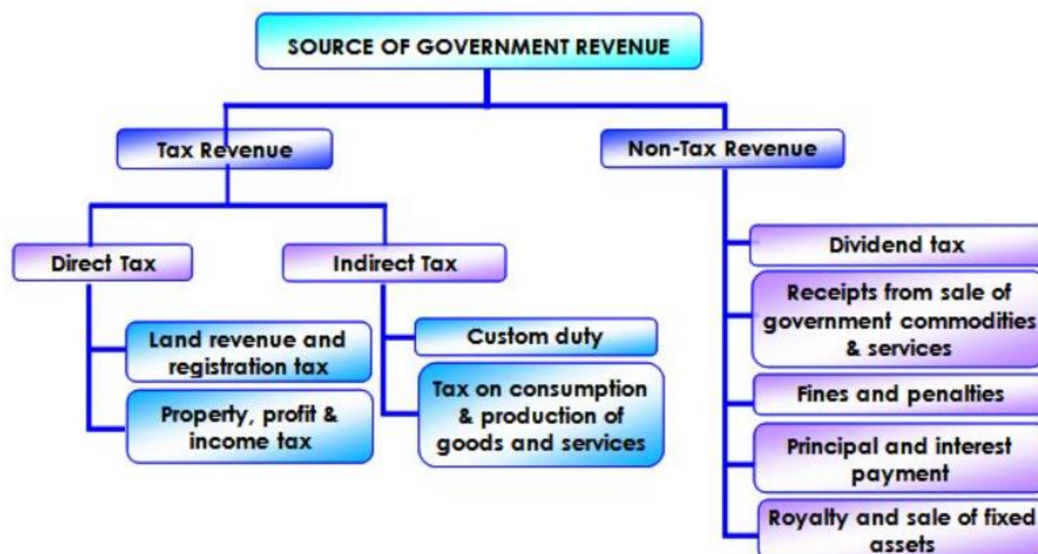
favourable win-win economic gains through institutional process (Melin and Nordqvist, 2002).

6. Revenue System

6.1. General Overview

The revenue system of a government comprises the entire means and sources by which a government acquires fund. The term 'system' implies that relationships exist among the components, and that the whole set of revenue-raising measures can be considered as a group. It also refers to the income of a government from various sources to meet regular (operational) and development expenditure. There are generally two sources of government revenue, as illustrated as Figure 1:

Figure 1: General Component of Source of Government Revenue PLS-SEM Output

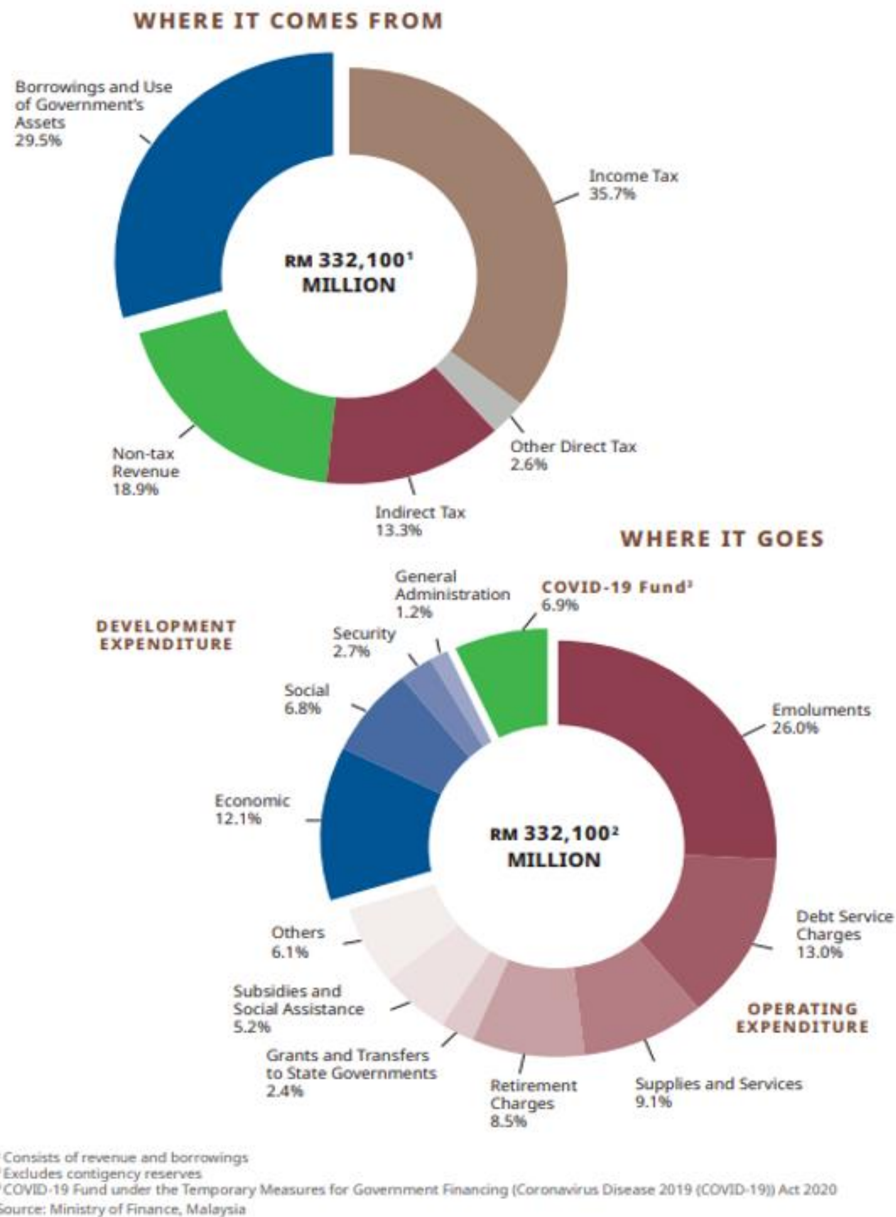


In the context of Malaysia, the federal government financed its operating and development expenditure in the 2022 budget mainly through income from income tax, non-tax revenue, and indirect taxes (see Figure 2).

The revenue system depends on the economic environment, which consists of individuals and corporations. In the context where corporate income tax contributes a huge percentage of revenue to the government, tax policies should recognise the role of corporate governance in the development of a sustainable economic environment (Margeirsson, 2015).

As the government offers investment tax incentives to corporations to encourage corporate real investment, the corporations' commitment should be nurtured and continued even after the investment tax incentives end. The government is not always capable of providing investment tax incentives forever. Therefore, balancing the investment tax incentives program implementation as tax expenditure and emphasising the corporate governance in the revenue system ensures sustainable government revenue generation.

Figure 2: The 2022 Federal Government Budget



6.2. Investment Tax Incentive as Tax Expenditure

It is a fact that investment tax incentives are a tax expenditure (Yussof, 2013). This means that the government invests in providing tax incentives to corporations to invest. Corporations enjoy their investments at lower cost of capital (Lee & Rabanal, 2010) and higher profit appropriation (Busom et al. 2014). Due to investment tax incentives, corporations pay lower tax or no taxes in extreme cases where they enjoy full tax exemption over the incentive period. Once the incentive period lapses, the government can start expecting taxes from the corporations. This will only materialise if corporations reinvest their resources into corporate real investment to replace, enhance and improve obsolete machinery and equipment over the tax incentive period. Therefore, having good corporate governance values and mechanisms that align with the government's vision ensures that the investment tax incentive or tax expenditure generates a reasonable return. Otherwise, the tax expenditure is merely an expensive sunk cost.

6.3. Investment and The Economy

Corporate investment plays a significant role in generating economic growth (Abdi, 2008). It provides employment opportunities, facilitates the transfer of technology, and promotes human capital development. The magnitude of corporate resources reinvested into the economy determines the sustainability of the economy. Low corporate real investment indicates corporations' low readiness to capitalize on new opportunities, which is not favourable for the economy. On the other hand, optimum corporate real investment is a positive signal of favourable economic growth. Therefore, the government should share its vision of building a sustainable economic environment with corporations so that they can continue their commitment even after the incentive period lapses. This sharing of government inspiration should be translated into tax policy.

7. Institutionalisation of Investment Tax Incentives and Corporate Governance

7.1. Integration

Bringing about a change in an organisation is a complex process that involves setting goals and developing a plan for achieving them. The government needs to understand the complex organisational structures and approaches to leverage them in carrying out the integration smoothly.

The connection between the neoclassical theory of investment and agency theory is possible through the institutional processes of corporate governance. Corporate governance mechanisms are deeply rooted in corporate governance practices, which revolve around the core principles of shareholding, directorship, and external auditor engagement in corporations. Meanwhile, the investment tax incentive program is always led by the government as a measure to encourage investments. Investment tax incentives are an important subject of tax policy that determines the investment climate of a country (Van Parys and James, 2010). Investment decisions indispensable examine the tax policy so that they align with it. Since the investment tax incentives program outlines the investment tax incentives a country offers, investments always welcome investment tax incentives that maximise their profit appropriation margin.

Investment tax incentives normally offer a limited period of tax holiday. Corporations fully utilise the investment tax incentives during the period and are cautious about investment after the investment tax incentives expire due to a risky business perspective, high cost of capital, and unfavourable investment climate (Van Parys & James, 2009). As a result, the government's inspiration to stimulate investment and build a sustainable economic environment is hindered. In the worst case, corporations shift to other countries that offer better investment tax incentives and investment climates. In stiff competition, governments of tax jurisdictions practice the harmful tax effect of race to the bottom (Görg, et al, 2009).

It is important to establish a connection between the government and corporations by sharing the inspiration of building a sustainable economic environment that benefits all. Therefore, the investment tax incentives program and profit maximisation motive of corporations should be integrated by institutional process by an institutional process of corporate governance. Corporations must carry the government's inspiration of building a sustainable economy through investment even after the incentive period (Schaner, 2018). This means that corporations should reinvest their profits back into the business to enhance business

technology, human capital, and infrastructure. Heavy dependence on investment tax incentives from the government may jeopardise business growth and opportunities.

For instance, it is possible that tax changes that encourage innovation and entrepreneurship may have persistent long-run growth effects, while those that affect investment also can have long-lasting effects on growth that fade out in the long run. In contrast, tax changes affecting labour supply will have only a transitory effect on growth.

7.2. Institutional Process

Institutional processes are essential for the execution of economic policy (Nambiar, 2009). According to the study, well-intentioned economic policies may not be implemented in the manner expected by theory in the absence of adequate institutional processes. In the perspective of privatisation in Malaysia, Nambiar (2009) suggests that institutional processes should be put into place in order to achieve the full benefit of economic policies.

It is important to understand institutional processes, which can be highlighted through their impact on daily operations. According to Ritchie (2016), organisations have the power to shape human behaviour; thus, companies should focus on how they manage change in their establishments and the impact it has on people. Using the same principle, the complexity of connections and interactions between institutions implies that to facilitate organisational change and integration, the institutions must have a sufficient understanding of each element. In this scenario, the institution aims to alter its structure, which is a significant change that would affect the institution's daily operations, interactions, and business strategies.

In addition, this institutional process can assist in communicating the new values to the institutions. Therefore, the government needs to dedicate more attention to orientation to ensure that the corporations understand the technical processes properly. Additionally, the government has to enhance understanding of the policy change and its implications among the current institution. Therefore, a series of explanatory sessions should be developed for this purpose.

Another consideration that should be taken into account during this integration process is organisational culture and its implications. Supriadi & Sui Pheng (2018) state that managing culture within corporations during strategic changes is crucial. The most appropriate way is to ensure that the corporations understand the anticipated changes and can accept them. As was previously mentioned, the expected changes of integration will affect the institutional structure and strategies of corporations.

For instance, the management should review and revise the current mission and vision statements to align with the government's goals. According to Diogo et al. (2015), such an approach requires a thorough understanding of the current environment and various technical aspects of the responsibilities involved. In addition, the government must communicate its new tax policy goals to the corporations. Therefore, with the new institutional structure, management should aim to honour the government's objectives.

Overall, it is essential to understand and apply the knowledge of institutional processes when managing institutional change. The primary component that the government should leverage as a champion in the integration of investment tax incentive programs and corporate governance is socialisation through the education of corporation's ownership, shareholders, and management about the new strategies that the corporations and government plans to

adopt. In addition, the government and corporations should monitor the cultural change to ensure proper adoption of the new tax policy. Finally, the government and corporations should provide a response to how the new strategy should be applied in the adoption of integration and their interactions.

For an institutional process to take place, it is not sufficient to merely change the structural features of corporate governance in the corporations. The change must also occur in the processes of governance (Greenwood & Hinings, 1996; Barley & Tolbert, 1997). According to Meyer and Rowan (1977), the use of a formal structure, such as the board of directors, may simply reflect a myth and be adopted ceremonially rather than represent a real change in actual work activities. Therefore, institutional process entails harmonisation and integration of frameworks that foster sustainable revenue systems that are able to finance socio-economic development.

8. Conclusions

Tax policy reflects the government's general perspective towards investment and building a sustainable economic environment. The integration of investment tax incentives and corporate governance aims to share the inspiration of a sustainable economic environment between government and corporations, which should be reflected in tax policy. The shared inspiration is expected to form a common ground that would enable the generation of sufficient revenue to finance government socio-economic development activities. Governments and corporations always play a complementary role in the revenue system and in building a sustainable economic environment.

9. Limitation of the Study

This study is limited to adoption subject to comprehensive study on various factors of investment climate, tax policy and revenue system of particular tax jurisdiction.

10. Suggestion for Future Research

Since the tax policy pertaining to the tax incentives program for the manufacturing sector has significant impacts on the revenue system, the lack of integration of corporate governance may affect the buoyancy of the government revenue generation especially in developing countries, it is an interesting area for future examination.

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