

Corporate Social Responsibility and Tax Avoidance: Evidence from BRICS countries

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Corporate Social Responsibility and Tax Avoidance: Evidence from BRICS countries

Abstract

Purpose: Using listed firms domiciled in the founding BRICS countries, i.e., Brazil, Russia, India, China, and South Africa, this study empirically examines the impact of corporate social responsibility (CSR) engagement on the degree of tax avoidance.

Design/methodology/approach: Data used in this study is sourced from the EIKON database, where CSR variables, i.e., the scores of social and environmental pillars, are extracted from ASSET4, and accounting variables are sourced from Worldscope. We use a series of fixed effects regression models as the baseline approach to test the hypotheses. In addition, the 2SLS regression model is employed to address endogeneity issues.

Findings: Our results show that firms domiciled in BRICS countries do not use CSR strategically as "a tool" to legitimate themselves, manage their risks, or minimize public scrutiny from their tax avoidance behavior, but that they develop a culture of tax compliance and CSR engagement as a complementary strategy, promising ethical conduct to external audiences and committing to serving the interests of all stakeholders.

Originality/Value: This study incrementally contributes to the extant literature on the link between tax avoidance and CSR engagement by offering evidence from dominant emerging markets, where the institutional factors differ considerably from those of developed countries. Furthermore, we provide essential insights for policymakers that including responsible tax payment as part of the global CSR agenda may motivate firms to align their behaviors to tax payment.

Keywords: tax avoidance, corporate social responsibility, emerging countries, BRICS

1. Introduction

Although corporations face a legal and social responsibility to pay tax, the issue of tax avoidance has continued to be a ubiquitous practice to reduce tax burdens (Saragih and Ali, 2023; Abdelfattah & Aboud, 2020; Oussii & Klibi, 2024). Tax avoidance is a mechanism to increase shareholders' wealth as it reduces corporate costs (Hanlon & Heitzman, 2010; Hanlon & Slemrod, 2009; Robinson et al., 2010; Saragih & Ali, 2023). However, losses from corporate tax avoidance mark severe effects on society both in terms of the economy and societal well-being as the government loses funds that could be used to improve public infrastructure (Salihu, Annuar & Sheikh Obid, 2015). That is, tax avoidance is viewed as socially irresponsible behavior (Dowling, 2014) because corporations do not act as good citizens by not paying their fair share of taxes (Huseynov & Klamm, 2012).

Given that tax payments and corporate social responsibility engagement originate from the same economic, legal, and moral responsibility of firms towards society inherent in corporate citizenship, we empirically examine whether there are inconsistencies between firms' CSR engagement and corporate tax avoidance. In particular, this study explores whether firms follow the expectations of a broad range of stakeholders by implementing the strategy of tax compliance along with CSR engagement or whether BRICS firms engage in organized hypocrisy by simultaneously practicing tax avoidance activities and portraying themselves as socially responsible. This is one of the first studies in tax avoidance and CSR focusing on Brazil, Russia, India, China, and South Africa (BRICS) countries, where the institutional framework is considerably different and weak compared to developed countries.

Our main empirical results indicate a positive and significant relation between the annual effective tax rate (ETR) and CSR performance scores, suggesting that CSR is negatively associated with tax avoidance, i.e., the higher the level of CSR, the lower the level of tax avoidance. The findings imply that companies in BRICS countries are committed to a wide range of stakeholders, thereby executing a strategy of tax compliance and CSR engagement. These findings are robust to a number of approaches, including the use of alternative measures of tax avoidance and the level of CSR performance, as well as the two-stage least square (2SLS) model to address endogeneity issues.

Given that most prior studies on the link between CSR and tax avoidance focus on developed jurisdictions, this study incrementally contributes to the literature by using firm-level data from dominant and key emerging economic countries, namely BRICS. This group of emerging countries has been vital and is expected to dominate the global economy and important trading partners. Furthermore, while research in this area tends to analyze single-country settings, such as the U.S. (e.g., Hoi et al., 2013) or Australia (e.g., Lanis & Richardson, 2012a; 2012b), we incrementally extend the literature by examining the relationship between CSR engagement and tax avoidance more comprehensively using a sample of firms domiciled across different jurisdictions. This enables us to empirically determine whether country-level characteristics, including institutional factors, affect the relationship between CSR engagement and tax avoidance. Additionally, this study contributes to the literature by providing new insights into the association between tax avoidance and CSR through the lenses of several theories, including legitimacy theory, stakeholder theory, reputation risk management, organized hypocrisy, and corporate culture. In doing so, we provide a better understanding of the link between tax avoidance and CSR, as all theories are bridged and explained as overlapping theories at different perception levels. More specifically, the new insights indicate that firms in the BRICS group do not use CSR strategically as "a tool" to legitimate themselves, manage their risks, or minimize public scrutiny from their tax avoidance behavior. Instead, they develop a culture of tax compliance and CSR engagement as a complementary strategy, promising ethical conduct to external audiences and committing to serving the interests of all stakeholders. This new evidence is useful for standard setters and regulators when considering CSR-related regulations and for CSR reports to include responsible tax payment as part of those regulations and reports.

The rest of this paper is organized as follows: Section 2 highlights the importance of the BRICS economy, while Section 3 discusses the prior literature and presents testable hypotheses. Section 4 explains the research design section, followed by the empirical results in Section 5. Finally, Section 6 discusses the main findings, implications, limitations, and suggestions for future research.

2. The Importance of BRICS

Established in 2006, BRICS is the acronym for the founding intergovernmental organization of five countries: Brazil, Russia, India, China, and South Africa. In 2024, the organization expanded to include four more countries, including Iran, Egypt, Ethiopia, and the United Arab Emirates, and the plan is to invite more countries in the future. According to the World Bank database (Skies, 2019), BRICS together account for about 29% of the world's population, 23% of the world's land area, and about 24% of the global GDP (Gross Domestic Product), making the group a vital economic engine. Although mainly focusing on economic development, BRICS has also played a politically conscious role, especially in the institutions and practices of international political economy, and they have had the most discernible impact on changes in the existing global governance architecture (Armijo & Roberts, 2014). Since the financial crisis in 2008, BRICS started working with the G20, the International Monetary Fund (IMF), and the World Bank to reform structures of global financial regulations in line with the increase in the relative weight of emerging countries in the world economy. Moreover, BRICS proposes calls to replace the U.S. dollar as the *de facto* global currency. However, it should be noted that there are marked differences among the five countries in terms of diverse interests, production structure, political and legal systems (Olivera, Ceglia & Filho, 2016), opening outward, exchange rate, and historical conflicts, which may affect the cooperation of BRICS on international relations issues.

Unlike the slow economic growth experienced by developed countries, the World Bank (Skies, 2019) highlights high GDP growth across BRICS countries, with an average rate of 5.9% between 2001 and 2010 and 3.6% between 2011 and 2018, while the average global GDP growth is only around 2.8% for both periods. Remarkably, the collective GDP per capita of BRICS countries has been around 175%, outperforming the developed countries' rate in 2001 and almost 340% in 2018. The rapid growth of BRICS's economic performance is due to their openness to emerging markets (Radulescu et al., 2014). During these 17 years, BRICS's goods imports (exports) have grown more than 840% (900%), while the global growth of imports (exports) during the same period was 217% (222%). Moreover, BRICS have attracted significant investors for FDI in their countries. In 2018, their FDI accounted for 28.91% of the world FDI net inflows and contributed 18.55% to the world, representing more than 300% and 1,800% growth for inflow and outflow FDI, respectively,

since they were formed in 2001. Although they have been facing a hard time, i.e., the financial crisis in 2008, the increasing sanctions on Russia, the Indian markets' bear run in 2014, China's stock market crash in 2015, and the ongoing Brazilian economic crisis, BRICS's stock markets bounced back soon enough to overturn the damage. For example, their capital markets have beaten out the 2008 crisis, increasing by 122% in the following year, and by more than 200% in 2018, accounting for 15.68% of the world market capitalization. Due to this demonstrated economic growth model, BRICS countries have gained significant weight in decision-making at the international level and have exerted global influence. Furthermore, as outlined above, the institutional factors of BRICS countries are considerably different, albeit weaker, compared to those in developed economies, providing an interesting context to examine the link between CSR engagement and tax avoidance.

3. Literature Review and Hypotheses Development

To promote particular corporate behaviors, tax authorities exclude or exempt some items, such as interest earned on municipal bonds and an extra amount for deducting from the calculation of tax liability. Accordingly, loopholes allow taxpayers to avoid taxes through those exemptions and deductible items (Oussii and Klibi, 2024; Saragih and Ali, 2023). Payne and Raiborn (2018) assert that interpreting the loopholes to the taxpayer's benefit is not illegal as long as taxpayers do not take a position that crosses the line drawn by law with the desire to evade taxes. In line with this, tax avoidance becomes an accepted and expected practice for business entities to arrange tax burdens as low as possible in corporate tax planning.¹ However, what is *legal* is only sometimes *legitimate*. The benefits of tax reduction are vested primarily in the company's shareholders,

¹ Tax avoidance is covered broad range of behaviors that a corporation engages to accomplish its goal. For example, a) postponement of tax by retiming transaction to pay tax later than it should be (Fisher, 2014; Slemrod & Yitzhaki, 2002; Stiglitz, 1986), b) change or make a reasonable interpretation of the legal form such as re-characterizing income to capital gain, restructuring a business from A to B, or renaming a consumer loan as a home equity loan (Fisher, 2014; Slemrod & Yitzhaki, 2002), and c) involve tax arbitrage by taking advantage from tax system of other countries to produce tax saving (Fisher, 2014; Slemrod & Yitzhaki, 2002).

regardless of whether a use of legal loopholes for aggressively avoiding tax may indirectly affect other stakeholders of a corporation, such as employees, management, creditors, potential investors, competitors, governments, as well as society at large (Payne & Raiborn, 2018). Furthermore, multinational firms from developed jurisdictions that take advantage of a developing country's tax incentives and low tax rates to avoid higher taxes in their home country and that do not provide significant economic benefits to the host country may be questioned as to whether they behave ethically towards either the home or the host country (Haugen, 2018; Payne & Raiborn, 2018; West, 2018). Therefore, even though the benefits for a myriad of stakeholders are challenging to balance, firms are generally expected to consider the impact of their corporate actions on all stakeholders and to maximize profits through means that do not break the social norms.

As CSR is an evolving concept and thus, achieving consensus on a definition of CSR is difficult (Marens, 2004; Jilani, Chouaibi and Kouki, 2023). Friedman (1970) narrowly equates CSR with corporate executives' responsibility to make as much money as possible for their employers. At the same time, such actions must comply with the basic rules of society, both legal and ethical. Carroll (1979) offers a much broader and widely accepted definition, arguing that "the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979 p. 500).

Prior studies have used several theoretical perspectives to explain the motivations for CSR engagement (Kaimal and Uzma 2024; Farooq et al., 2024), with the majority adopts the legitimacy theory perspective (Tran, 2021). The underlying argument of this theory posits that a corporation must act congruently with society's values and norms to continue its existence Dowling and Pfeffer (1975). If a corporation has breached society's expectations where it operates, its survival will be threatened (Deegan and Rankin, 1996). In other words, if a corporation wants to succeed in continuing its survival, its value system should be congruent with society's value system, and this condition is referred to as legitimacy (Suchman, 1995). Legitimacy has been reserved in the CSR literature along two major lines: institutional and strategic approaches (Suchman, 1995). From an institutional perspective, legitimacy stems from conformity to the constructed systems of social values, norms, beliefs, and definitions (Suchman, 1995). Therefore, if corporations' operations, structures, and strategies follow the typical patterns of these social constructs, the corporations

would be perceived as legitimate organizations (Scott, 2008). Under this notion, the idea that companies should engage in certain responsible behaviors towards society leads CSR to become a strongly institutionalized feature of legitimate expectation (Brammer et al., 2012). Growing pressure from civil society on corporations has created an “unavoidability of normative conformity” (Palazzo & Scherer, 2006 p. 73). Therefore, to be perceived as a legitimate organization, the institutionalization of CSR is integrated into concrete actions.

In contrast to the institutional perspective, strategic legitimacy focuses mainly on how the corporations perform to gain, protect, increase, or repair their legitimacy (Dowling and Pfeffer, 1975). As such, the adoption of CSR can be seen as a tool to build legitimacy (Preuss, 2010). CSR has been institutionalized into a value system through activities such as the diffusion of CSR departments, the proliferation of branding initiatives, an ISO standard on CSR, and even the spread of stock market indices related to sustainability. These activities involve the understanding of people in society that CSR cases exist in organizations if they are doing so (Brammer et al., 2012). That is, visible engagement in social or other initiatives enhances acceptance from society, and corporations are rewarded with increased legitimacy.

In a similar vein, the stakeholder theory is used by prior work (Hichri and Ltifi, 2021) to analyze the context of CSR through the lens of instrumental or normative stakeholder theory. Instrumental stakeholder theory assumes that the corporation is a mechanism for wealth creation, and CSR can be part of such an instrument because CSR is perceived as a strategic tool to stimulate economic objectives (Garriga & Mele, 2004). In line with this, Rodgers et al. (2013) find that a firm’s commitment to social responsibility contributes to its financial performance. On the other hand, normative stakeholder theory is philosophically based on moral obligations towards stakeholders focusing on the ethical issue that corporations should pledge to adhere to the expectations of all stakeholders, not just shareholders (Garriga & Mele, 2004).

In an ever-changing world, businesses are forced to deal with uncertainty. Risks affect business outcomes in several terms, such as economic performance, reputation, environment, safety, and society. As such, managing those risks can be a key to business success. Generally, when a negative corporate situation arises, society would identify sanctions based on the conditions

surrounding the incidents (Hoi et al., 2013). Godfrey (2005) theorizes that positive moral corporate action provides firms with insurance-like protection as it reduces the negative perceptions of the misbehaviors of business organizations. Through this lens, CSR becomes a mechanism to deal with potential reputational risks (Fombrun et al., 2000; Lin-Hi & Blumberg, 2018; Minor & Morgan, 2011). Several studies show that CSR and corporate reputation are positively associated (e.g., Stanaland et al. 2011). The common argument for a positive link between CSR and corporate reputation is based on the effect of a signal created by the assumption of social responsibility. Engaging in CSR allows a corporation to signal its reliable and honest behaviors (McWilliams & Siegel, 2001), its interest in the stakeholder well-being and society as a whole, and its willingness to take care of others' needs (Bhattacharya et al., 2009). Consistent with Godfrey (2005), CSR activities can be seen as a way to manage risks as they signal to the public that the management of firms pays attention not only to maximizing benefits for shareholders but also to having responsibility towards society.

Stakeholders are very concerned and closely monitor what and how companies do regarding CSR issues. Due to recent examples of organizational misconduct, the public has become more skeptic with regard to CSR (Christensen, Morsing, & Thyssen, 2013). CSR means “doing” good for society, not just “talking” about it (Aras & Crowther, 2009; Fernando, 2010; Holder-webb et al., 2009), but companies often treat CSR just as a corporate spin to improve legitimacy (Jahdi & Acikdilli, 2009). According to Banerjee (2008), communicating CSR to the public is a symbol of an ideological movement intended to legitimize and consolidate the power of large organizations. Consistently, other scholars assert that CSR is a powerful mechanism to protect against criticism or to mislead interpretations in the way that an organization has nothing to hide (Newell, 2008) and to express intentions or policies without any real substance (Kolk, 2003). Thus, the discrepancies between CSR talk and actions are seen to be sources of hypocrisy (Wagner et al., 2009).

Corporate culture is a set of shared beliefs and assumptions that guide organizational members' behavior in various situations to achieve economic success (Pohl, 2006). Corporate culture characterizes all or most of the members in an organization, creating a unique characteristic and pattern that are stable over time (Ganescu & Gangone, 2017). As such, corporate culture

influences how people in an organization interact with each other and various stakeholders. Supported by prior literature, the values and attitudes of managers are determined by corporate culture, which affects their behaviors and decision-making (Subramaniam & Ashkanasy, 2001). Furthermore, corporate culture impacts organizational operations' outcomes (McKinnon, Harrison, Chow, & Wu, 2003; Baird, Harrison, & Reeve, 2004, 2007).

If tax avoidance is considered just as a business transaction, its objective is only to reduce the amount of corporate tax expense as much as possible (Avi-Yonah, 2008), and it has nothing to do with ethics, stakeholders, or society. Yet, because the national budget from tax revenue is “the lifeblood of the social contract, vital to the development and maintenance of physical infrastructure” (Christensen & Murphy, 2004, p. 37), avoiding paying tax erodes the smooth functioning of state to provide public goods and this affects the existence of society (Avi-Yonah, 2006). Tax avoidance is also related to the debate around the issues regarding regulatory compliance and organizational integrity (Bird & Davis-Nozemack, 2018). Firms readily reap the benefits of public resources such as an educated workforce and foundational research, transportation, and utility systems created and maintained by tax revenue. As such, society imposes a duty-based obligation for firms to pay a fair share of tax to contribute to the continuity of those public services (Scheffer, 2013a; Sikka, 2010). When firms try to avoid tax to maximize profits, they fail to act as good citizens of society (Hoi et al., 2013). According to this view, tax avoidance is a socially irresponsible practice inconsistent with a firm’s obligations to society (Avi-Yonah, 2014; Dowling, 2014; Hasseldine & Morris, 2013; Lanis & Richardson, 2015).

To mitigate this problem, governments in the past have handled tax avoidance through complex law² (Bird & Davis-Nozemack, 2018). Nevertheless, given that tax avoidance is an undesirable corporate conduct that is legal (Guenther et al., 2013; Slemrod & Yitzhaki, 2002), complex law alone cannot eliminate the corporate behavior of tax avoidance. Since written law does not

² Hard law is a foundation of any functioning tax system that can bring standards to all firms operating under the tax system as it works through sanctions and determination of clarity (Nov, 2006). Therefore, it cannot be rejected that hard law allows tax system to perform more efficiently.

emphasize the critical tasks of the non-coercive mechanism in tax compliance, it is challenging to enforce the law with grey-area behaviors. In particular, soft law is guided by societal values and norms, possessing the characteristics of legal rules (Park & Berger-Walliser, 2015) but flexibly (Karmel and Kelly, 2009). This allows society to pressure firms to comply with corporate responsibility to pay responsible taxes if they want to be perceived as legitimate in the eyes of the public. As CSR is based on a duty-based system and considered a form of soft law (Jackson 2010) that emphasizes the firm's social commitment to various stakeholders, it is theoretically and practically linked to the corporate practice of tax avoidance (Knuutinen, 2014), and the public has called for the incorporating of a fair share of tax payments as part of CSR (Huseynov & Klammer, 2012).

Hypotheses Development

The empirical link between corporate tax avoidance and social responsibility has yet to be drawn as its direction has been evidenced based on various theories. Scheffer (2013) suggests that there is still a need to provide a better understanding of the relation between them. This study responds to Scheffer's suggestion by bridging the gaps among CSR-related theories, namely, legitimacy theory, stakeholder theory, reputation risk management, organized hypocrisy, and organizational culture, to explain the tax avoidance – CSR relationship on three levels. At the first level, legitimacy is treated as a fundamental condition corporations aim to hold for their continued existence in society. As society encompasses various groups of stakeholders, stakeholder theory is considered at the second level by narrowly focusing on managing the different or often conflicting demands of particular stakeholder groups (instead of society as a whole) to ensure corporate survival. Lastly, at the third level, the perspectives of reputation risk management, organized hypocrisy, and corporate culture help to explain the reasons behind corporate actions to satisfy stakeholder demands and expectations.

Under a normative stakeholder perspective, corporations have moral obligations toward stakeholders (Brickson, 2007), so they should pledge to comply with stakeholder groups' norms, values, and expectations. As Freeman (1984) includes any individual and all parties that are affected by the operation of corporations in the term of “stakeholders,” it is essential for

corporations to establish or improve policies and strategies as well as operations that offer outcomes most favorable to all related stakeholders (Williams, 2007). If this belief has been adopted into a corporate policy and is used consistently, it will turn into a corporate culture, referring to shared beliefs that guide appropriate behaviors to achieve success (Pohl, 2006) and influencing the way that corporation's members interact with each other and external stakeholders.

As CSR comprises the concepts of corporate philanthropy, sustainability, and corporate citizenship (Ganescu & Gangone, 2017; Kaimal and Uzma 2023), as well as the interests of stakeholders, Brammer et al. (2012) argue that CSR is a strongly institutionalized feature. Hoi et al. (2013) view CSR as one aspect of corporate culture that presents the right organizational action. Although having CSR as a core strategy may make a company being recognized as a socially responsible corporation, failing to prove genuinely ethical operation may cost the company. The practice of tax avoidance is viewed as unethical and irresponsible corporate behavior (Hoi et al., 2013) since avoiding paying taxes impacts the function of producing public goods to serve all members of society. Therefore, if firms with strong CSR cultures simultaneously participate in tax avoidance, firms will not be appreciated by the community and may be labeled as "poor corporate citizens" (Chen et al., 2010). This practice is not in line with a culture of being a responsible corporation that would suggest balancing the interests of all related stakeholders.

Hoi et al. (2013) show that firms with more irresponsible CSR activities are more likely to avoid taxes, supporting the effect of corporate culture on tax avoidance. This result suggests that firms with a high CSR culture display lower levels of tax avoidance. Lanis and Richardson (2012) assume that the concept of CSR provides a corporation guidance to choose an appropriate ethical stance for a particular situation that affects its stakeholders. As tax aggressiveness is viewed as irresponsible behavior that destroys the quality of life of people in society, Lanis and Richardson (2012) hypothesize that firms with high CSR profiles will be more cautious in engaging in aggressive tax avoidance, as they are frightened that it may cause a negative perception towards their firms and eradicate their reputation from other CSR activities. By examining the level of CSR disclosure of 408 Australian corporations using an index with multiple proxies of corporate tax aggressiveness for the 2008/2009 financial year, their results confirm their hypothesis that the higher the level of CSR activities, the lower the level of aggressive tax engagement. Using a cross-

country sample from 35 countries, Zeng (2019) shows that high CSR firms engage in less tax avoidance when country-level governance is weak. Similar results between CSR performance and tax avoidance are documented using Egyptian firms by Abdelfattah and Aboud (2020).

Based on the preceding discussion, the perspective of corporate culture explains that if a firm strongly believes in “right” corporate behavior, then all the decisions undertaken by the firm should reflect such a ‘right’ shared belief (Hermalin 2001). Therefore, firms with a culture that strongly believes in balancing the interests of all stakeholders will accept compromise in the pursuit of shareholder profit by pursuing a combined strategy of tax compliance and CSR engagement to enhance their legitimated exitance in society. Accordingly, based on the complementary notions of legitimacy theory, normative stakeholder theory, and the corporate culture theory, the first hypothesis predicts a negative statistical association between tax avoidance and CSR as follows:

H1a: All else being equal, firms with a *high* level of CSR are *less* likely to engage in aggressive tax avoidance.

When managers are encouraged to prioritize the interests of shareholders, they may use tax avoidance techniques to maximize profit for shareholders. At the same time, premised on legitimacy theory, companies need to retain the rights of continuous business in society by operating in a way that meets society's expectations (Deegan & Rankin, 1996; Dowling & Pfeffer, 1975). Tax avoidance, unquestionably, is not a corporate action favored by society. Therefore, managers of companies need to adopt strategies that could obfuscate their avoidance behaviour or moderate the negative consequences of tax avoidance. Under the instrumental branch of stakeholder theory, CSR could be an efficient tool to achieve managers’ objective of minimizing public scrutiny and safeguarding their legitimacy (Cho & Patten, 2007; Magness, 2006). Although the objective of CSR is to encourage firms to act and operate responsibly towards societies, many firms claim their integrity, ethics, honesty, responsibility, and transparency through CSR reports to exclusively promote their image to gain or maintain legitimacy (Avi-Yonah, 2008; Cho & Patten, 2007; Magness, 2006; Preuss, 2010), as well as to deal with potential reputational risks (Fombrun et al., 2000; Lin-Hi & Blumberg, 2018; Minor & Morgan, 2011). Given that companies attempt to legitimize their societal credentials by presenting themselves as good citizens but

simultaneously involve in tax avoidance practices, Sikka (2010) extends that this situation may be categorized as organized hypocrisy, representing the gaps between corporate talk, decision, and action. That is, the actual actions of the companies may not necessarily be aligned with their publicly advocated claims. That is, few companies refer to tax payments as part of their social responsibility reports. A recent study by Gandullia and Pisera (2020) reports that when firms face high involuntary social contributions through tax burdens, they offset this by reducing voluntary socially responsible engagement. Similarly, using a dataset from 49 countries, Ariff, Kamarudin, Musa, and Mohamad (2024) document that firms with higher tax avoidance are associated with higher ESG performance.

Therefore, if CSR engagement is ultimately an attempt by a company to create positive stakeholder perceptions and reduce the harshness of penalties from adverse events, companies may engage in CSR hypocrisy to hedge against reputation loss from tax avoidance. Accordingly, based on the complementary notions of legitimacy theory, instrumental stakeholder theory, reputation risk management, and organized hypocrisy, the second hypothesis predicts a positive statistical association between tax avoidance and CSR as follows:

H1b: All else being equal, firms with *higher* levels of CSR are *more* likely to engage in aggressive tax avoidance.

4. Research Design

This study uses data from the founding BRICS countries, i.e., Brazil, Russia, India, China, and South Africa, between 2010 and 2017. Data used in this study is sourced from the Eikon database, where CSR variables, i.e., social and environmental pillar scores, are extracted from ASSET4, and other financial data are from Worldscope. The statutory tax rate is collected from the KPMG International Cooperative website.³ The information on IFRS adoption relies on the IFRS® Foundation.⁴ Following Hoon et al. (2011), the legal system is defined based on the JuriGlobe

³ Source: <https://home.kpmg/vg/en/home/services/tax1/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>

⁴ Source: <https://www.ifrs.org>

research group of the University of Ottawa.⁵ Financial firms are excluded because of the unique practices of accounting standards. The final sample consists of 498 firms with 2,276 firm-year observations. The distribution of data by country and industry is reported in Table 1.

(Insert Table 1 about here)

In the context of this study, tax avoidance is defined, following Hanlon and Heitzman (2010), as schemes that a corporation participates in for explicit tax reduction without any attempt to distinguish between legal avoidance activities and illegal evasion activities.⁶ Extant research argues that ETR captures a broad range of tax avoidance activities (Badertscher, Katz, & Rego, 2013; Laguir, Staglianò, & Elbaz, 2015; Lanis & Richardson, 2012;), and it is a financial statement metric publicly presented and noticeable to investors (Wang & Kong, 2011). Therefore, the ETR is appropriate for capturing the overall consequence of tax avoidance following the objective of this study. However, in mitigating the difficulty of economic interpretation for the negative value of ETR, negative values of the numerator and denominator in the ETR calculation are firstly set to zero before the ETR is calculated⁷. Secondly, the ETR has also been winsorized to a value of 0 and 1 in order to make it more interpretable⁸ (Dyreng et al., 2008).

This study uses CSR rating scores to proxy for CSR which are collected from ASSET4. It provides scores of broad CSR performance of a company in four pillars, including environmental, social, governance, and economic, ranging from 0% to 100%. As this study focuses on all stakeholders, instead of shareholders exclusively, it excludes economic and corporate governance performance

⁵ Source: <http://www.juriglobe.ca/eng/>

⁶ That is, tax avoidance is focused on the total amount of tax avoided, rather than on the specific actions because specific actions taken provide different costs and benefits across countries.

⁷ Most of prior ETR studies exclude the year in which firms report losses and exhibit negative income tax expenses from their investigation (e.g., Atwood, Drake, & Myers, 2010). It is possible that negative income tax and negative pre-tax income might be the result of the manager's attempt to reduce earnings, to some extent, in order to reduce tax expenses. Therefore, such values should not be excluded from the analysis.

⁸ The ETR is the actual tax rate that firms pay their taxes. Therefore, it has no economic meaning if the rate turns to be negative values or greater 1.

and captures only the level of CSR related to society as a whole through the average scores of social and environmental pillars (Naughton et al., 2014).

In examining the relationship between tax avoidance and CSR, the following model is estimated:

$$\begin{aligned} TaxAvoid_{i,t} = & \beta_0 + \beta_1 CSR_{i,t} + \beta_2 Size_{i,t} + \beta_3 CapInt_{i,t} + \beta_4 ROA_{i,t} + \beta_5 MTBV_{i,t} + \\ & \beta_6 Loss_{i,t} + \beta_7 Lev_{i,t} + \beta_8 DivPayout_{i,t} + \beta_9 CloseHeld_{i,t} + \\ & \beta_{10} LawSys_{i,t} + \beta_{11} IFRS_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (1)$$

where $TaxAvoid_{it}$ is the annual effective tax rate, CSR_{it} is the average of social CSR scores and environmental CSR scores, $Size_{it}$ is the natural logarithm of total assets, $CapInt_{it}$ is the intensity of firms' capital, ROA_{it} is firm profitability, $MTBV_{it}$ is the market-to-book-ratio, $Loss_{it}$ is net operating losses, Lev_{it} is firm leverage, $DivPayout_{it}$ is dividend pay-out per share, $CloseHeld_{it}$ is the closely-held shares, $LawSys$ is the country's law origins, and $IFRS_{it}$ is the adoption of IFRS. The definitions and operationalization of variables are given in Appendix A.

Since higher values of CSR_{it} suggest a greater level of CSR, whereas higher ETR implies less tax avoidance; this study accepts H1 if the coefficient β_1 for CSR_{it} shows a positive value, as it suggests a negative relationship between CSR and tax avoidance. On the contrary, if the coefficient β_1 for CSR_{it} has a negative value, H2 is accepted, as it indicates a positive relationship between CSR and tax avoidance.

5. Results and Discussion

Table 2 presents the descriptive statistics, where Panel A shows the statistics for the total sample, Panel B shows the mean value of all variables based on country of domicile, and Panel C shows the mean value of all variables based on the industry of the firm's operation. The sample mean of

ETR (26%) is lower than that of the statutory tax rate (STR) (29.3%), as expected.⁹ Although the overall value of ETR is lower than that of STR for the pooled sample, not all observed countries report a consistent level of lower ETR than STR. In particular, while Russia shows an average ETR of 24.80% versus an average STR of 20.50%, South Africa shows an average ETR of 31.40% versus an average STR of 31.10%. As the independent variable, CSR shows a mean (median) of 56.73 (63.19). Across the country, there are marked differences in CSR scores. South Africa displays the highest mean value in CSR of 68.30. At the same time, China shows the lowest mean value of 36.87, providing little support to Alon et al. (2010)'s result, which claims that firms in China realize the importance of CSR communication relative to other nations in the BRICS group. For firm-specific controls affecting the firm level of tax avoidance, all continuous variables are winsorized at percentiles 1% and 99% to mitigate the potential of extreme value-distorting results. Overall, the means and medians of all variables show an acceptable range, which reflects the normality of distributions.

(Insert Table 2 here)

Table 3 reports the regression results for average CSR, individual pillar, and ETR. The results indicate that the regression coefficients for average CSR for the social pillar and for the environmental pillar are positive and significantly associated with ETR. This implies that firms with a higher level of CSR are likely to be less tax-aggressive. The results lend support for H1a, explained through the complementary notions of legitimacy theory, normative stakeholder theory, and the corporate culture theory, suggesting that firms in the BRICS group do not use CSR as "a tool" to legitimate themselves, manage their risks, or minimize public scrutiny from their tax avoidance behavior. Instead, they develop a culture of tax compliance and CSR engagement as a complementary strategy geared toward improving reputation to gain legitimacy where firms promise ethical conduct to external audiences and commit to serving the interests of all

⁹ ETR is the average rate at which an individual firm is taxed on its pre-tax profits so that expected to be lower than STR which is the tax rates that are established by the law of each country. As such, ETR is commonly to have a lower value than the STR due to the allowable income tax exemptions. The lower ETR than STR also implies that there are incomes included in book income but would not be recorded in taxable income (Armstrong et al., 2012).

stakeholders. This result supports prior findings indicating that economic responsibility in the view of Chinese firms is not perceived as the most important responsibility, but providing jobs, housing, and food is the most important responsibility for CSR engagement (Alon et al., 2010). In comparison to developed countries, this finding is consistent with many prior studies in which firms with a higher level of CSR are less likely to engage in tax avoidance (e.g., Hoi et al., 2013; Laguir et al., 2015; Lanis & Richardson, 2012, 2015).

(insert Table 3 here)

As for the firm-specific control variables, the results are consistent in all cases for average CSR, and for the social and environmental pillars individually. The capital intensity (CapInt) is negative and significantly associated with the effective tax rate, consistent with Huseynov and Klamm (2012). This result implies that larger firms reduce tax rates. This result can be explained through the theory of political power, which assumes that larger companies have more resources to engage in more lobbying and participate in more complex tax planning activities. The coefficients on firm leverage (Lev) have a significantly positive relation to the ETR, suggesting that firms with a high level of leverage participate less in tax avoidance activities. Consistent with Huseynov and Klamm (2012), the firm profitability proxied by return on asset (ROA) is significantly positively associated with ETR, consistent with the notion that ETR is progressive according to income. As predicted, firms with negative income (Loss) are less inclined to lower their tax rates, thereby positively associated with the ETR. Growth, measured as the market-to-book ratio (MTBV), is significant and positively related to the ETR, consistent with Dyreng et al. (2008) and Minnick and Noga (2010). The results also show that firms having more alignment between managers and shareholders (CloseHeld) pay more tax, consistent with the results of dividend payout per share (DivPayout) and tax rate being positive and significant for all models. More aligned firms commit to increasing profits for shareholders, leading to higher tax liability due to increased incomes.

Considering the results for country-specific variables, firms in the country with civil law (LawSys), characterized as low investor protection, show lower ETR as expected, because the low level of

investor protection represents less enforcement of law and regulations.¹⁰ After adopting IFRS, firms report higher ETR, supporting the argument that the increased book-tax conformity would reduce managerial opportunism over financial reporting, limit tax avoidance, and minimize costs of compliance (Blaylock et al., 2015; Tang, 2015). If book income and tax income were to conform, managers would not be motivated to increase book income because doing that would be countered by higher income tax payments. Similarly, downward book income to avoid tax would be countered by the disapproval of financial contracts from creditors or shareholders' dissatisfaction (Blaylock et al., 2015). Further support for the required book-tax conformity argues that the convergence of the two would diminish earnings management by eliminating tax accruals, which can be used to either manage or smooth financial income with no effect on taxable income (Whitaker, 2005).

Robustness tests

For the first robustness test, this study adjusts the overall average CSR scores by CSR country and industry-mean scores to control for the deviation of CSR scores across countries and industries (McWilliams & Siegel, 2001). Second, following Lanis & Richardson (2012), this study divides overall CSR scores into a high level of CSR performance and denotes high CSR equal to 1 if the firm's overall average CSR score falls above the country mean score and is equal to 0 otherwise. Table 4 Panel A reports the positive association between tax avoidance and CSR in both alternative measures of CSR: industry-adjusted CSR ($\beta = 0.0307, p < 0.01$) and high subgroup of CSR ($\beta = 0.0147, p < 0.01$). Again, they are quantitatively similar to the main test and provide further support for the hypothesis of stakeholder theory. In the case of firm and country-specific control variables, results are similar to those in the main tests, both in terms of direction and magnitude of the coefficients.

¹⁰ Consistent with La Porta et al. (1998), common law origin presents characteristics that comply with attributes of strong investor protection.

Given this study is based on data from different jurisdictions, the measure of ETR in the main test may alter the results because of differences in accounting choices across different countries. This study, therefore, uses the first alternative measure of ETR, which is calculated by income tax divided by operating cash flows, to mitigate such a problem (Jaafar & Thornton, 2015; Karampinis & Hevas, 2013). In addition, annual ETR is calculated from annual data, which can introduce significant year-to-year variation in the measure, thereby misleading indicators of corporate tax avoidance. Supported by Dyreng et al. (2008), a one-year ETR is less predictive for tax avoidance. Therefore, using long-term ETR is more appropriate as it reflects sustained avoidance by firms, representing their intention to maintain low ETR over a long period by manipulating particularly complicated transactions and hence clouding users of financial statements (Kubata et al., 2013). In addition to benefits regarding the reduction of volatility presented in annual ETR (Hanlon & Heitzman, 2010; Salihu et al., 2013), using long-run ETR helps diminish data truncation bias due to a loss in each year¹¹ (Henry & Sansing, 2018). Gebhart (2017) investigates the measures of tax avoidance used in prior literature. Predictably, he finds that there are differences among the single measure, and those differences carry on over time. In particular, measures estimated on an annual basis display considerable correlation increasing due to the similarity of computation and inputs used. Following Dyreng et al. (2008), this study adopts a five-year cumulative ETR as the second alternative measure of tax avoidance. It is defined as a five-year income tax divided by five-year pre-tax income. The results of the alternative measures of ETRs and CSR are reported in Table 4 Panel B, and they reveal that both average CSR and individual CSR pillars continue to exhibit a strong positive relationship with the tax rate for both alternative proxies: the one-year ETR with operating cash flow as a denominator ($\beta = 0.0007$, $p < 0.01$) and five-year ETR with pre-tax income as a denominator ($\beta = 0.0006$, $p < 0.01$).

We also use the Two-Stage Least Squares (2SLS) analysis to mitigate the problem of endogeneity. The endogeneity occurs when an independent variable is correlated with the error term, which can arise as the result of (i) omitted variables, (ii) reverse causality, and (iii) measurement error (Robert

¹¹ Almost all ETR studies exclude the year in which firms present losses because the difficulty of economic interpretation for negative value of ETRs.

and Whited, 2012). In this study, the concern relates to the second issue of endogeneity. That is, it can be argued that tax avoidance causes CSR engagement (Lanis & Richardson, 2013) or that CSR engagement causes tax avoidance (Hoi et al., 2013; Huseynov & Klamm, 2012; Lanis & Richardson, 2012). In dealing with this concern, the instrumental variables are used (Bound et al., 1995; Reed, 2015) with a 2SLS estimation.

As CSR is assumed to be the endogenous variable in the model, this study uses the industry-mean CSR as the instrumental variable (Robert and Whited, 2012) in the 2SLS regression. Table 4 Panel C reports consistent results with those of the OLS regression, where the regression coefficient for average CSR is positive and significantly associated with the ETR ($\beta = 0.0008$, $p < 0.01$). In addressing the endogeneity of CSR variables, the null hypothesis testing that the CSR variables are exogenous is executed. Both the Durbin test and Wu-Hausman test report a very small p-value, which suggests rejecting the null hypothesis and that the model is correct in treating CSR variables as endogenous variables. Further, all the R^2 statistics in the first-stage regression to confirm the relevance of instrumental variables are relatively high, suggesting that the instruments are sufficiently correlated with CSR variables. Therefore, they do not imply a weak-instrument problem.

Table 5 reports the regression results for each member country in the BRICS group. As explained by institutional theory, the way corporations govern varies across jurisdictions due to a variation of the motives of managers, shareholders, and other key stakeholders driven by the long-standing, historically entrenched institutions (Matten & Moon, 2008), which focuses on the role of economic, political, and cultural context (Baughn et al., 2007). Therefore, the relationship between tax avoidance and CSR may be present in diverse countries in the BRICS group. The main regression model is re-estimated with the country-based data separately. The results show that Russia, India, and China provide statistically significant evidence consistent with the main test. Although Brazil and South Africa show a relatively high mean value of CSR rating scores, signifying a high level of CSR engagement, the relation between tax avoidance and CSR is no longer significant. This suggests that the firms' behavior regarding CSR is not a driver of tax avoidance for Brazilian and South Africa firms. Consistent with Im et al. (2017), we find that the active activities on CSR in Brazil do not link with tax avoidance.

6. Conclusion

Since corporate taxes are a vital source of national revenue, which supports social infrastructures, avoiding paying taxes by corporations adversely affects society as a whole. Tax-avoiding firms, then, are conceived as not being a good citizen because they do not discharge the duty to pay their fair share of taxes, implying that they neglect their social responsibility. This raises the question of whether it is time to bring the issue of tax avoidance into the CSR account when considering the firms' obligations and responsibility towards "all stakeholders" in "all aspects" affected by their business operation. Although tax avoidance seems to be related to CSR strategy, the link between them is not well explored in the literature, especially in the emerging market contexts. Against this backdrop, this study examines how tax avoidance relates to CSR engagement in BRICS.

At the firm level across BRICS countries, the results show that firms with higher levels of CSR display lower levels of tax avoidance. The results suggest that firms in BRICS do not engage in CSR activities to mitigate public scrutiny from their tax avoidance behaviors. Instead, they legitimate themselves by having a culture of promising ethical conduct to external audiences and committing to serve all stakeholders' interests. However, at the country level, the findings are consistent with the observation that firms claiming to be socially responsible are less likely to avoid tax only in India and China.

The findings have significant implications for policymakers, investors, businesses, and society, who seek to identify the conditions under which tax avoidance is less likely to be aggressive. This study finds that strong CSR firms are less likely to engage in tax avoidance. Therefore, the result furthers policymakers' understanding and allows them to formulate effective regulations that can improve tax compliance by stimulating firms to include responsible tax payments as part of a CSR code of conduct policy. Moreover, these results support the calls by non-governmental organizations, such as ActionAid, Oxfam, and the Tax Justice Network, to frame corporate taxation as a CSR issue. The requirement to include responsible tax payments as part of the global CSR agenda may make businesses more concerned about their behaviors regarding tax payments. Furthermore, our study offers useful implications for investors in selecting socially responsible

firms as part of their portfolio, as these firms also behave ethically in paying a fair amount of taxes. Similarly, the public can trust those socially responsible firms as they are more inclined to contribute to society.

This study is subject to the following limitations: First, the sample is limited to publicly listed firms and limited to only five countries as the representatives of emerging countries. Second, the measures of tax avoidance (ETR) are based on financial statement data, which cannot guarantee their accuracy. Third, due to the unavailability of data, CSR measures are limited to only one score provider, and the findings may not be easily comparable to studies investigating the same or similar aspects that use different measures. Therefore, potential works on the relationship between tax avoidance and CSR in emerging economies are encouraged to expand the sample size and use proxies that can ensure the practice of tax avoidance in a particular sample, such as a sample of corporations accused by the taxation office that they are tax avoiders, and investigate based on the same measure using data from the same database. Finally, other firm- and country-level factors, as well as incorporating mediating and moderating analyses, could be explored in future studies.

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Table 1 Sample Distribution by Country and Industry

Panel A: Sample Distribution by Country

Country	Observations		Firms	
	N	Pct.	N	Pct.
Brazil	446	20%	122	24%
Russia	219	10%	45	9%
India	412	18%	77	15%
China	676	30%	129	26%
South Africa	523	23%	125	25%
	2,276	100%	498	100%

Panel B: Sample Distribution by Industry

Industry	Observations		Firms	
	N	Pct.	N	Pct.
Basic Materials	457	20%	109	22%
Consumer Goods	276	13%	61	12%
Consumer Services	227	10%	56	11%

Health Care	110	5%	28	6%
Industrials	518	23%	109	22%
Oil & Gas	237	10%	37	7%
Technology	87	4%	16	3%
Telecommunications	133	6%	31	6%
Utilities	231	10%	51	10%
	2,276	100%	498	100%

Note: This table presents the sample distribution by *country and industry*.

Source: Authors' own analysis

Table 2 Descriptive Statistics

Panel A: Overall variable summary

Variables	N	Mean	25%	Median	75%	SD
ETR	2276	0.260	0.196	0.257	0.310	0.136
STR	2276	0.293	0.250	0.280	0.340	0.049
CSR	2276	56.732	31.100	63.190	80.885	27.302
SOC	2276	60.037	31.800	69.540	87.940	30.213
ENV	2276	53.426	27.365	57.415	79.045	27.579
Size	2276	15.762	14.701	15.873	16.685	1.514
Lev	2276	0.172	0.048	0.143	0.255	0.146
ROA	2276	0.107	0.044	0.084	0.138	0.107
Loss	2276	0.005	0.000	0.000	0.000	0.072
MTBV	2276	3.015	1.120	1.860	3.460	3.462
CapInt	2276	0.384	0.166	0.357	0.603	0.239
CloseHeld	2276	0.467	0.244	0.515	0.677	0.271
DivPayout	2276	34.335	17.880	30.355	48.050	23.510
LawSys	2276	0.589	0.000	1.000	1.000	0.492

IFRS	2276	0.710	0.000	1.000	1.000	0.454
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Panel B: Country mean value for all variables

Variables	Mean Value					
	Overall	Brazil	Russia	India	China	S.Africa
ETR	0.260	0.257	0.248	0.245	0.235	0.314
STR	0.293	0.340	0.205	0.336	0.250	0.311
CSR	56.732	66.147	53.241	66.299	36.868	68.303
SOC	60.037	71.992	55.653	67.680	35.648	77.183
ENV	53.426	60.301	50.829	64.918	38.088	59.423
Size	15.762	15.836	16.748	15.520	16.549	14.459
Lev	0.172	0.256	0.169	0.157	0.162	0.125
ROA	0.107	0.089	0.135	0.141	0.067	0.137
Loss	0.005	0.002	0.005	0.000	0.003	0.015
MTBV	3.015	3.109	2.146	4.862	2.117	31.395
CapInt	0.384	0.292	0.551	0.350	0.417	0.376
CloseHeld	0.467	0.434	0.615	0.555	0.545	0.262
DivPayout	34.335	43.422	28.358	24.649	31.382	40.534
LawSys	0.589	1.000	1.000	0.000	1.000	0.000
IFRS	0.710	0.881	0.479	0.000	1.000	0.847

Panel C: Industry variable mean value against overall mean value

Variables	Mean Value									
	Overall	Ind.1	Ind.2	Ind.3	Ind.4	Ind.5	Ind.6	Ind.7	Ind.8	Ind.9
ETR	0.260	0.271	0.254	0.294	0.231	0.253	0.236	0.219	0.287	0.269
STR	0.293	0.288	0.306	0.306	0.306	0.289	0.255	0.312	0.292	0.310
CSR	56.732	58.479	54.062	48.972	41.588	49.349	70.597	71.813	56.777	67.923
SOC	60.037	62.024	57.133	57.494	46.456	49.676	70.854	76.604	63.878	72.230
ENV	53.426	54.935	50.992	40.449	36.720	49.022	70.340	67.023	49.677	63.616
Size	15.762	15.893	14.906	14.632	14.602	15.652	17.704	15.187	16.330	16.331
Lev	0.172	0.179	0.098	0.173	0.110	0.173	0.149	0.059	0.209	0.313
ROA	0.107	0.109	0.144	0.125	0.144	0.070	0.111	0.171	0.122	0.072
Loss	0.005	0.013	0.004	0.004	0.000	0.004	0.000	0.000	0.015	0.000
MTBV	3.015	2.258	5.957	70.407	4.079	2.397	1.387	3.911	2.467	1.577
CapInt	0.384	0.488	0.280	0.334	0.255	0.291	0.594	0.116	0.483	0.449
CloseHeld	0.467	0.509	0.441	0.354	0.442	0.410	0.549	0.444	0.575	0.526
DivPayout	34.335	32.120	36.250	41.424	23.655	30.888	28.631	31.141	40.560	45.746
LawSys	0.589	0.573	0.540	0.507	0.382	0.581	0.789	0.276	0.519	0.831
IFRS	0.710	0.707	0.678	0.885	0.536	0.793	0.637	0.448	0.564	0.740

Note: This table presents descriptive statistics for the main variables used in the analysis. See Appendix A for the definitions of variables.
Source: Authors' own analysis

Table 3 The Relation between Tax Avoidance and CSR

Variables	Exp. Sign	ETR					
CSR_A4:							
Average CSR	+/-	0.0004 (0.000)	**				
Pillars:							
Social				0.0002 (0.000)	*		
Environment						0.0004 (0.000)	***
Control Variables:							
Firm-Level:							
Size	+/-	0.0022 (0.003)		0.0037 (0.003)		0.0017 (0.003)	
CapInt	-	-0.0538 (0.014)	***	-0.0515 (0.015)	***	-0.054 (0.014)	***
Lev	+/-	0.0481	*	0.0448	*	0.0508	**

ROA	+/-	(0.025) -0.1368 *** (0.031)	(0.025) -0.1343 *** (0.031)	(0.025) -0.1372 *** (0.031)
Loss	+	0.6394 *** (0.059)	0.6394 *** (0.059)	0.6391 *** (0.059)
MTBV	+/-	0.0002 *** (0.000)	0.0002 *** (0.000)	0.0002 *** (0.000)
CloseHeld	-	0.0389 *** (0.012)	0.0387 *** (0.012)	0.0386 *** (0.012)
DivPayout	-	0.0008 *** (0.000)	0.0008 *** (0.000)	0.0008 *** (0.000)
Country-Level: LawSys	-	-0.0711 *** (0.011)	-0.0721 *** (0.012)	-0.0719 *** (0.011)
IFRS	+	-0.0467 *** (0.011)	-0.0461 *** (0.011)	-0.0465 *** (0.011)
Fixed Effects: Country, Industry, Year		Yes	Yes	Yes
Constant		0.2549 *** (0.041)	0.2387 *** (0.040)	0.2655 *** (0.042)
adj. R^2		0.229	0.228	0.23
F		14.5941	14.5618	14.6148
N		2276	2276	2276

Note: Robust standard errors clustered at the firm level are in parentheses. *, ** and *** indicate the level of significance at $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively, using two tailed tests. See Appendix A for the definitions of variables.

Source: Authors' own analysis

Table 4 Robustness Tests

Panel A: Tax Avoidance and CSR using Alternative CSR Measures

Variables	Exp. Sign	Tax Avoidance				
		ETR as Income Tax/Pre-tax Income				
Industry Adj. CSR:	+					
Average CSR		0.0307*** (0.0077)				
Social CSR			0.0216 *** (0.0074)			
Environmental CSR				0.0297*** (0.0075)		
High level of CSR:	+					
Average CSR				0.0147** (0.0063)		
Social CSR					0.0075 * (0.0061)	
Environmental CSR						0.0224 *** (0.0063)
Constant		0.2724*** (0.0410)	0.2533 *** (0.0405)	0.2797*** (0.0420)	0.2559*** (0.0420)	0.2373 *** (0.0408)
						0.2797 *** (0.0426)

adj. R^2	0.234	0.232	0.235	0.229	0.227	0.231
F	15.446	15.116	15.287	15.028	14.384	15.3378
N	2276	2276	2276	2276	2276	2276

Panel B: Tax Avoidance and CSR using Alternative Tax Avoidance Measures

Variables	Exp. Sign	Tax Avoidance				
		ETR as Income Tax/Operating Cash Flow			Five-year ETR	
CSR:	+					
Average CSR		0.0007 *** (0.0002)		0.0006 *** (0.0001)		
Pillars:						
Social		0.0008 *** (0.0002)			0.0006 *** (0.0001)	
Environment			0.0003 * (0.0002)			0.0005 *** (0.0001)
Constant		0.4892 *** (0.0648)	0.4746 *** (0.0633)	0.4693 *** (0.0657)	0.3111 *** (0.0413)	0.2896 *** (0.0397)
						0.3137 *** (0.0425)
adj. R^2		0.211	0.213	0.208	0.175	0.172
F		28.711	28.709	28.502	21.530	21.644
N		2108	2108	2108	2210	2210

Panel C: Tax avoidance and CSR using 2SLS estimation

Variables	Exp. Sign	Tax Avoidance (ETR)		
		2SLS Estimation		
CSR:	+			
Average CSR		0.0008 *** (0.0002)		
Pillars:				
Social			0.0006 *** (0.0002)	
Environment				0.0007 *** (0.0002)
Fixed Effects:				
Industry, Year		Yes	Yes	Yes
Constant		0.3133 *** (0.0415)	0.285 *** (0.0402)	0.3287 *** (0.0434)
Adj. R^2		0.226	0.225	0.227
Wald χ^2		439.240 ***	431.860 ***	436.760 ***

Tests of endogeneity:

(Ho: variables are exogenous)

Durbin chi2	15.391	***	8.207	***	12.694	***
Wu-Hausman F	15.804	***	8.748	***	13.156	***

First-stage regression:

R^2	0.8429		0.8352		0.8347	
Adj. R^2	0.8409		0.8331		0.8326	
Part. R^2	0.6585		0.6536		0.6779	
F	2159.58	***	1679.96	***	2307.33	***

<i>N</i>	2276	2276	2276
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Note: *, **, and *** indicate the level of significance at $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively, using two-tailed tests. Robust standard errors clustered at the firm level are in parentheses. All models are controlled for country, industry, and year-fixed effects.

Source: Authors' own analysis

Table 5 Tax Avoidance and CSR by country of domicile

Countries	ETR-CSR	ETR-Social	ETR-Environmental
Brazil	0.0001	0.0002	0.0000
	(0.0004)	(0.0003)	(0.0003)
FE: Industry and Year	Yes	Yes	Yes
adj. R^2	0.282	0.282	0.282
F	8.2791	8.2919	8.2715
<i>N</i>	446	446	446
Russia	0.0007*	0.0003	0.0012***
	(0.0004)	(0.0003)	(0.0004)
FE: Industry and Year	Yes	Yes	Yes
adj. R^2	0.379	0.370	0.393
F	6.7885	6.5744	7.1468
<i>N</i>	219	219	219
India	0.0006**	0.0004*	0.0005**

	(0.0003)	(0.0003)	(0.0003)
FE: Industry and Year	Yes	Yes	Yes
adj. R^2	0.188	0.185	0.188
F	5.1413	5.0564	5.1506
N	412	412	412
China	0.0010***	0.0006***	0.0011***
	(0.0003)	(0.0002)	(0.0003)
FE: Industry and Year	Yes	Yes	Yes
adj. R^2	0.210	0.203	0.214
F	8.4797	8.1610	8.6425
N	676	676	676
S. Africa	0.0001	0.0001	0.0002
	(0.0003)	(0.0003)	(0.0003)
FE: Industry and Year	Yes	Yes	Yes
adj. R^2	0.381	0.381	0.381
F	14.9458	14.9578	14.9725
N	523	523	523

Note: Standard errors in parentheses

*, ** and *** indicate the level of significance at $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively, using two tailed tests. See Appendix A for the definitions of variables.

Source: Authors' own analysis

Appendix A: Variable definitions

Variable	Description	Definition and Operationalization
<i>ETR</i>	Effective tax rate	The current tax expense divided by pre-tax income
<i>CSR</i>	CSR scores	The average scores of ASSET4's Environmental pillar and Social pillar
<i>SOC</i>	Social pillar scores	The scores of ASSET4's Social pillar
<i>ENV</i>	Environmental pillar scores	The scores of ASSET4's Environmental pillar
<i>Size</i>	Firm size	The natural logarithm of total assets
<i>Lev</i>	Firm leverage	The ratio of long-term debt to total assets
<i>MTBV</i>	Market value to book value	The ratio of the market value of equity to book value of equity
<i>Aggloss</i>	Aggregate losses	

<i>DivPayout</i>	Dividend payout ratio	The ratio of dividend payment to earnings before extraordinary items and dividend
<i>CapInt</i>	Capital Intensity	Ratio of property, plant, and equipment to total assets
<i>ROA</i>	Firm profitability	Ratio of pre-tax operating profit to total assets
<i>CloseHeld</i>	Closely held shares	The percentage of shares owned by insiders.
<i>LawSys</i>	Legal System	The country-level indicator variable for the legal system. Equal 1 if the country has a common law system, 0 if the country has a code law system.
<i>IFRS</i>	IFRS adoption	An indicator variable equal to 1 if the country mandates the use of IFRS, and 0 otherwise.
<i>STR</i>	corporate statutory tax rate	The corporate statutory tax rate in each jurisdiction and each year

Source: Authors' own compilation