Corporate Social Responsibility and Tax Avoidance:
Organized hypocrisy or balancing contradictory demands?

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The study examines how companies maintain legitimacy in an environment characterized by conflicting demands of heterogeneous audiences. We specifically focus on the contradictory expectations of (i) shareholders for profit maximization facilitated by tax avoidance; and (ii) civil society for corporate social responsibility (CSR), involving fair tax contributions. We use a twelve country dataset to illustrate a significant and positive association between CSR engagement and tax avoidance. In particular, we find that (i) firms domiciled in liberal market economies and (ii) firms operating in environmentally sensitive industries are more likely to engage in organized hypocrisy, which entails demonstrating CSR engagement while minimizing corporate tax obligations in response to contradictory moral-ideational pressures. Our results imply that firms use CSR engagement to compensate for opportunistic tax planning activities. This diverts resources from civil society to shareholders via tax avoidance, thus depriving it of funds to finance public goods.

Keywords: Corporate social responsibility; tax avoidance; legitimacy theory; organized hypocrisy

JEL classification: H2, M14, M41

1. INTRODUCTION

There has been increasing public scrutiny of multinational companies' (MNCs) tax avoidance schemes in the aftermath of the financial crisis. This has triggered a public debate over what constitutes acceptable corporate tax behavior (Sikka, 2013, Davis, Guenther, Krull & Williams, 2016). The media, pressure groups, non-governmental organizations (NGOs), and the OECD have framed tax payments as a corporate responsibility which contributes to countries' public finances.[1] Simultaneously, companies are subject to pressure from shareholders to reduce their tax liabilities. This opens up the question of how companies deal with the contradictory demands and expectations of: (i) shareholders for profit maximization facilitated by tax avoidance on the one hand; and (ii) non-financial stakeholders for socially responsible corporate behaviorinvolving equitable tax contributions, on the other hand. This challenge is exacerbated by the competing pressures exerted by the prevailing economic system, emphasizing the maximization of profitability and shareholder returns and civil society's concerns with social and environmental issues.[2]

Based on the assumption that corporate tax payments and socially responsible activities stem from the same economic, legal, and moral responsibility of organizations towards society inherent in the concept of corporate citizenship, we empirically examine whether there are inconsistencies between firms' CSR engagement and corporate tax policy. Specifically, we explore whether companies engage in socially responsible activities to meet their moral and social obligations to society, including corporate tax contributions, or to appease non-financial

1 The Guardian, the BBC, and the pressure groups UK Tax Uncut and the Tax Justice Network have been naming and shaming companies for not paying their 'fair share' of taxes. Oxfam and Action Aid published reports on tax havens. The OECD has criticised companies for not contributing their fair share of taxes by shifting the responsibility for providing the necessary funds to meet government financing requirements to individual taxpayers via social security contributions, individual taxes, and value added taxes (OECD, 2015).

2 We define civil society as "the arena in which people come together to advance the interests they have in common, not for profit or political power, but because they care enough about something to take collective action" (Edwards, 2000, p. 7). NGOs, such as Greenpeace, the World Wildlife Fund, Oxfam, and Action Aid, are part of civil society (Gray, Rob, Bebbington, & Collison, 2006).

stakeholders while prioritizing shareholders' demands for profit maximization by engaging in tax avoidance. For this purpose, we draw on legitimacy theory, the notion on corporate citizenship (Carroll, 1999; Jeurissen, 2004; Matten & Crane, 2004), and Brunsson's (1989; 1993b) concept of 'organized hypocrisy.' Corporate citizenship is concerned with the social role of businesses in society. Demonstrating congruence of corporate practices, policies and performance with social norms and rules ensures organisational legitimacy which, in turn, grants companies access to symbolic and economic resources and ensures long-term organizational survival. Organized hypocrisy constitutes inconsistency between action, talk (rhetoric) and decisions, which arises from an environment characterized by irreconcilable normative-ideational pressures. Companies respond by counter-coupling formal commitment to corporate responsibility to society and actual behavior, i.e., corporate responsible 'talk' (CSR engagement) compensates for corporate irresponsible 'action' (tax avoidance).

Using a sample of firms domiciled in 12 countries over the period 2006 to 2019, our analysis indicates that firms with higher levels of CSR engagement are more likely to engage in tax avoidance. Furthermore, our results show that country-level institutional factors, including corporate governance/financial systems and industry membership, are essential in determining the relationship between CSR engagement and tax avoidance. In particular, we find that (i) firms domiciled in liberal market economies and (ii) firms operating in environmentally sensitive industries are more likely to face a predicament involving a trade-off between CSR engagement and corporate tax policy. Our results are robust using (i) alternative measures of CSR engagement and (ii) alternative proxy measures of tax avoidance; (iii) including only US firms and excluding US firms from our sample. This is in line with the theoretical assumptions underpinning corporate citizenship and organized hypocrisy. That is, firms in liberal market economies face more pronounced conflicting moral-ideational pressures than firms in cooperative market economies. This makes it more difficult for firms to balance

the demands of the capital market with those of civil society. These counterveiling pressures force companies to treat CSR engagement and tax obligations as separate concerns, rather than interconnected issues relating to their social responsibility as corporate citizens. Our empirical results thus confirm Brunsson's (1993b, p. 9) observation that "if we expose organizations to conflicting demands and norms, and expect that they respond to them, we must expect hypocrisy."

Our study contributes to the literature on the motivation underlying CSR engagement in general and the literature on the relationship between CSR engagement and tax avoidance in particular. Prior studies on CSR engagement implicitly employ the concept of corporate hypocrisy and related notions of impression management, window-dressing, or greenwashing, which assume an inconsistency between a firm's observable statements and actions (Janney & Gove, 2011). Empirical evidence suggests that CSR engagement and reporting tend to be used strategically to conceal poor social-environmental performance, to distract from unethical or questionable corporate practices, including earnings management and options backdating (Janney & Gove, 2011; Prior, Surroca, & Tribó, 2008). What is more, firms that operate in environmentally sensitive industries such as oil and gas or mining, tend to provide more extensive CSR disclosures or engage in highly visible philanthropy because they face more intense scrutiny from environmental NGOs and the media (Cho, Laine, Roberts, & Rodrigue, 2015). By contrast, our study employs the concept of organized hypocrisy (Brunsson, 1993a), which rejects the notion of firms as rational unified actors and assumes that firms respond to contradictory demands by talking, making decisions, and acting according to different sets of norms, values, and beliefs. We suggest that firms may meet non-financial stakeholders' expectations (including that of civil society) for responsible behavior in CSR engagement

(socially responsible ‘talk’) and satisfy the demands of shareholders for profit maximization through tax avoidance (socially irresponsible ‘actions’).

This paper goes beyond earlier studies (e.g., Davis et al., 2016; Hoi, Wu, & Zhang, 2013) which focus on a single country, such as the US (e.g., Davis et al., 2016; Hoi et al., 2013) or Australia (e.g., Lanis & Richardson, 2012a; 2012b) and which are predominantly characterized by liberal market economies. We incrementally extend the literature by examining the relationship between CSR engagement and tax avoidance more comprehensively using a large sample of firms domiciled across different jurisdictions, including countries characterized by coordinated market economies, such as Germany and Japan. This allows us to examine whether country-level characteristics, including institutional factors, play a role in the relationship between CSR engagement and tax avoidance.

The remainder of this paper is organized as follows. Section 2 develops the theoretical framework and hypotheses. Section 3 sets out the research design. Our findings are presented in Section 4. The paper concludes with a discussion in Section 5.

2. THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Legitimacy is arguably the most critical resource for organizational survival. Companies are deemed legitimate if their practices, policies, and performance are congruent with prevailing social norms and rules (Suchman, 1995). However, maintaining legitimacy is problematic in the presence of heterogeneous audiences with conflicting demands and expectations (Suchman, 1995). We examine how companies resolve the tension between companies’ responsibility towards shareholders to increase profits by reducing tax obligations and towards society to adopt socially responsible and sustainable policies. .

Corporate social responsibility (CSR) and tax avoidance are controversial issues that have resulted in numerous debates in academia and the business community (see Hanlon &

Heitzman, 2010; Moser & Martin, 2012). There is no universally agreed definition of CSR, but, in principle, it reflects an organization's responsibility – economic, legal, moral and charitable – towards society (Holder-Webb, Cohen, Nath, & Wood, 2009). CSR encompasses ethics, and socially-oriented activities, such as employee welfare and corporate philanthropy (Murphy & Schlegelmilch, 2013). CSR arises from corporate citizenship. Corporate citizenship is based on the view that companies have a social role in society which results in duties and responsibilities beyond the economic (Matten & Crane, 2005). Companies discharge these duties and responsibilities in the form of socially responsible and sustainable policies, practices and behaviour. This invariably involves a trade-off between business benefits and social benefits and is dependent on the specific conditions of the external environment, which is characterised by a combination of economic, political, social, and cultural factors (Jeurissen, 2004).

We define CSR engagement as an organization's consideration of the social and environmental effects of its economic actions on stakeholders and civil society, including the communication of these impacts to interested parties (Gray, Owen, & Maunders, 1987, p. 76). This includes issues such as emissions targets, resource use and waste, and charitable giving. CSR engagement has multiple advantages for firms, including more favourable media coverage, less scrutiny from investors and employees, and lower risk of product boycotts, industrial action, and lobbying against the company (Prior et al., 2008, p. 162). This is due to its role in demonstrating corporate citizenship and maintaining organizational legitimacy, which involves protecting past accomplishments through "converting legitimacy from episodic to continual forms" (Suchman, 1995, p. 595). This entails reassuring audiences on a regular basis that organizational practices, policies and performance are congruent with social norms and rules. CSR engagement, especially in the form of CSR reporting, is particularly well-suited

to this purpose, as it provides audiences with "evidence of ongoing performance vis-à-vis their interests and with periodic assurances of 'business-as-usual'" (Suchman, 1995, p. 596).

Large MNCs, including Starbucks, Google, and Facebook, have been publicly criticized for tax avoidance, i.e., not 'paying their fair share' of tax (Bowers, 2016). We define tax avoidance as a tax-planning scheme, which firms structure to minimize their tax obligations. For example, this includes adopting abusive transfer pricing strategies or artificially shifting profits to low or no-tax locations, where little or no economic activity occurs (OECD, 2016). Although tax avoidance is legal, i.e., within the law, many argue that it is unethical and does not conform to the spirit of regulations (Chen, Chen, Cheng, & Shevlin, 2010; Lanis & Richardson, 2012a; Lanis & Richardson, 2015).[3] It consists of socially irresponsible behavior, as it "*involves a gain by one party at the expense of the total system*" (Armstrong, 1977, p. 185). However, shareholders exert pressure on management to reduce tax liability to benefit from higher profits in the form of dividends.

Until fairly recently, the maximization of a corporation's economic value was considered the only obligation for a corporation to fulfill (Friedman, 1970).[4] A firm meets this commitment by efficiently utilizing its resources and undertaking activities designed to maximize its profits, as long as it operates within the rule of law. Social and environmental issues are not regarded as part of the firm's responsibilities. Tax avoidance strategies are seen as acceptable managerial actions because they are considered profit-maximizing activities beneficial to capital providers, i.e., shareholders. Adopting this view, firms fulfill their social responsibility by utilizing resources and engaging in business activities designed to maximize their shareholders' wealth, as long as they operate within the prescribed laws, i.e., engage in open and free competition

3 Examples of tax avoidance activities include transfer pricing manipulations, shifting profits to tax haven jurisdictions and claiming excessive tax deductions.

4 This view is based on neo-classical economic theory, which focuses on self-interests rather than societal interests (Crane & Matten, 2004).

without any manipulation or fraud. Activities that lead to profit maximization, including tax avoidance, are undertaken if they are aligned with regulatory principles. Indeed, managerial participation in socially responsible activities, which does not increase a firm's economic value, is seen as a breach of its shareholders' responsibility. This is because it does not increase the firm's wealth and reduces its capacity to face market competition (Post, Lawrence, & Weber, 2002). Socially responsible activities that do not lead to profit maximization are not considered part of the firm's moral obligations as managers are accountable only to their shareholders (Crane & Matten, 2004). General Electric's (GE) public response to criticism of tax avoidance by the New York Times epitomizes this position:

> "**GE pays what it owes** under the law and is scrupulous about its compliance with tax obligations in all jurisdictions. We are committed to acting with integrity in relation to our tax obligations. At the same time, we have a responsibility to our shareholders to reduce our tax costs as the law allows." (emphasis in original, NYT, 2011)

However, expectations of firms relating to their obligations towards society have changed (Lewis, 2005). Profit is no longer regarded as the firm's ultimate purpose but rather as a tool to meet stakeholders' needs (Kakabadse & Kakabadse, 2007). Corporations are expected to fulfill its obligations to its community, and need to be managed according to moral principles accepted by various stakeholders (Lewis, 2005). This view entails a shift in companies' responsibility from focusing only on shareholder interests to that including non-financial and derivative stakeholders[5] (McWilliams & Siegel, 2001). This view has emerged partly from the climate-change issue and its effect on the natural environment and partly from recent corporate scandals and collapses. These events put growing pressure on firms to broaden their responsibility from shareholders to various stakeholders and the wider community

5 Derivative stakeholders have no legitimate relationship with the company (e.g., customers, employees, suppliers), but have power to either harm or benefit it (e.g., NGOs, activist groups) (Mitchell, Agle, & Wood, 1997).

(Silberhorn & Warren, 2007). This shift is reflected in the recent update on the purpose of the corporation by the Business Roundtable, signed by 181 CEOs of US companies, which rejects the former principles shareholder primacy in favour of a commitment to serve all stakeholders (The Business Roundtable, 2019).

What is more, corporate tax policy that aims to minimize taxes is increasingly perceived as socially irresponsible due to its long-term negative impact on society (Christensen & Murphy, 2004). Whereas shareholders perceive tax avoidance as a profit-maximizing activity and economically necessary, stakeholders view it as a socially irresponsible act. This is because it adversely affects the development of social and welfare infrastructures (Hasseldine & Morris, 2013), resulting in irreparable losses to society (Williams, 2007).[6] Governments rely on the revenues raised by corporate tax contributions to fund public services, such as healthcare and education and to provide public goods, which benefit society as a whole, such as roads, parks, and fundamental research. Corporate tax payment can thus be considered a litmus test for CSR engagement (Sikka, 2013) and a vital measure of a firm's citizenship behavior (Dowling, 2014). Vodafone adopts this position by acknowledging the link between corporate tax obligations and corporate responsibility in its 2015 Tax Report:

> "It is … in the long-term interests of a company such as Vodafone to ensure that the public services and infrastructure upon which we, our customers and our suppliers rely are fit for purpose and remain properly funded, including by means of a transparent, fair and effective system of taxation. We fully understand and respect our broader social responsibilities and will always pay all taxes properly due under the law wherever we operate." (p. 6)

6 Corporate income tax revenues have been decreasing across OECD countries. In the US, the proportion of corporate income tax of total tax revenues has declined from 16.4% in 1965 to 8.4% in 2014 (OECD, 2016). Crivelli, De Mooij, & Keen (2015) estimate total tax losses in the long run of approximately $600bn globally, the biggest losers in absolute terms being G20 countries, including the US, UK, Germany, Japan, France, Mexico, India and Spain (Weyzig, 2015).

Following the underlying spirit of the tax rules ensures organisational legitimacy and a positive relationship with tax authorities (Lanis & Richardson, 2012b). Conversely, designing and implementing tax schemes for the sole purpose of minimizing tax obligations violates the social contract between companies and society and damages the relationship with tax authorities.

This paper focuses on the two options firms have to resolve the conflict arising from the countervailing pressures exerted by (i) shareholders for profit maximization that involves reducing tax obligations on the one hand; and (ii) non-financial stakeholders and civil society for socially responsible corporate behavior, practices, and policies, including paying a 'fair share' of tax. Companies may either balance the conflicting demands and expectations by heterogeneous audiences or engage in organized hypocrisy (Brunsson, 1989; 1993a). The choice between the two options is dependent on the specific conditions of the external environment (Jeurissen, 2004).. Table 1 differentiates the two options.

(Insert Table 1 here)

The prior literature employing the concepts of impression management, window-dressing, and greenwashing (Chen, Hang, Pavelin, & Porter, 2020; Cho et al., 2015; Hemingway & Maclagan, 2004; Mahoney, Thorne, Cecil, & LaGore, 2013; Merkl-Davies & Brennan, 2007; Merkl-Davies & Brennan, 2011) implicitly draws on the notion of corporate hypocrisy. Corporate hypocrisy constitutes inconsistency between observable actions and observable statements (Janney & Gove, 2011; Wagner, Lutz, & Weitz, 2009). Based on the traditional view of organizations as unified rational actors, it assumes that companies decouple observable statements and actions as a means to conceal poor financial, social, or environmental performance, or to distract from unethical or problematic corporate practices.

This view is reflected in the observation that "corporations soothe public anxieties by publishing corporate social responsibility (CSR) reports and by making promises of good citizenship, but these actions do not always match their tax practices" (Sikka, 2013, p. 26). Thus, corporate hypocrisy constitutes opportunistic behavior to secure financial, social, or political support (i) when faced with poor organizational performance; or (ii) to maintain or restore legitimacy during times of crisis.

There is empirical evidence suggesting that firms with a high level of CSR engagement are more likely to adopt tax avoidance strategies. For example, Lanis & Richardson (2012a) compare the level of CSR disclosure for 20 Australian tax aggressive firms with 20 Australian non-tax aggressive firms in the period 2001 to 2006. They find a positive association between CSR disclosure and corporate tax avoidance. Similarly, using a sample of US firms, Davis et al. (2016) show that firms with higher CSR scores pay less tax and are more likely to engage in tax lobbying activities. This suggests that CSR engagement is a strategic tool to conceal socially irresponsible behavior through tax avoidance, where CSR engagement and corporate tax payments are regarded as substitutes.

By contrast, we draw on the concept of organized hypocrisy to explain the direct relationship between CSR engagement and tax avoidance. Brunsson (1989; 1993a), who developed the concept of 'organized hypocrisy,' views organizations as aggregations of loosely coupled or decoupled units. He argues that the external environment imposes a whole range of irreconcilable demands on organizations. Organizations may resolve these contradictions by engaging in organized hypocrisy, i.e., inconsistency between action, talk (rhetoric), and decisions. Rather than regarding talk as a precursor to action, as is the case in traditional decision theory and management theory, organized hypocrisy views them as independent from each other. Organized hypocrisy is, therefore, able to reflect opinions that are severely divided, as different views can be emulated in talk, decisions, and action. These discrepancies between

corporate talk, decision, and actions allow corporations flexibility to manage conflicting stakeholder demands and social pressures (Cho et al., 2015). We suggest that firms may meet the expectations of non-financial stakeholders and civil society for responsible behavior in CSR engagement while simultaneously satisfying the demands of shareholders for profit maximization in the form of tax avoidance. Organized hypocrisy involves the notion of counter-coupling, i.e., corporate responsible 'talk' (CSR engagement) compensating for corporate irresponsible 'action' (tax avoidance). In summary, organized hypocrisy is conceptually distinct from corporate hypocrisy in that that it views observable statements and actions as compensating rather than substituting for each other. Organized hypocrisy may either constitute deliberate opportunistic behavior driven by the need to secure financial, social, or political support in an environment characterized by irreconcilable norms or the unintended and unavoidable consequence of decoupled organizational units responding to conflicting demands.

Alternatively, firms may resolve the conflict by balancing the conflicting demands of heterogeneous audiences by pursuing both economic and social objectives. This entails participating in social activities while maintaining their profit-maximization goal (Carroll, 1979; Sethi, 1979; Wartick & Cochran, 1985; Wood, 1991). This involves devoting both resources and energy to actions that address both shareholders' and non-financial stakeholders' expectations, resulting in an alignment of CSR activities and corporate tax policy. In this scenario, firms use CSR engagement to align their socially responsible talk, decisions, and actions.

There is empirical evidence that firms with a high CSR engagement level are less likely to adopt strategies to avoid tax. For example, Huseynov & Klamm (2012), who partially examine the link between CSR and tax avoidance for firms that use auditor-provided tax services, find a negative association between CSR and the level of tax aggressiveness. Lanis &

Richardson (2012b) investigate the association between CSR and tax aggressiveness based on 408 Australian firms for the 2008–2009 financial year. They show that firms with high CSR disclosure engage in lower levels of tax aggressiveness. In addition, Hoi et al. (2013) provide an empirical investigation of the relationship between irresponsible CSR activities and tax avoidance practices using KLD's social ratings database. They report that firms with four or more irresponsible CSR activities have a higher likelihood of undertaking tax-sheltering and greater discretionary/permanent book-tax differences.

Furthermore, Lanis & Richardson (2015) use a matched sample of 217 tax-avoidant and 217 non-tax-avoidant US firm-year observations from KLD's social rating database to investigate the association between CSR performance and tax avoidance. Their results demonstrate that firms with higher CSR performance levels are less likely to engage in tax avoidance. In this case, CSR engagement and tax payments act as complements rather than compensates.

In sum, based on prior theoretical work and empirical findings presented in this section, firms have two options to resolve the countervailing pressures exerted by the prevailing economic system and the conflicting demands by diverse stakeholders, namely (a) to engage in organized hypocrisy or (b) to balance the contradictory demands and expectations by heterogeneous audiences. This suggests two competing hypotheses.

First, companies may view CSR engagement and tax policy as substitutes:

Hypothesis 1a: *Firms may respond to conflicting demands of heterogeneous audiences and inconsistent social norms and rules in their environment by engaging in organized hypocrisy, which results in a positive association between CSR engagement and tax avoidance.*

Alternatively, companies may view CSR engagement and tax policy as complements:

Hypothesis 1b: *Firms may respond to the conflicting demands of heterogeneous audiences and inconsistent social norms and rules in their environment by balancing the*

interests of stakeholder groups and the values of the current economic system and civil society, which results in a negative association between CSR engagement and tax avoidance.

3. RESEARCH DESIGN

To test our hypotheses, we obtained a sample of listed firms domiciled in 12 countries for 2006–2019. We used empirical proxies for CSR engagement and tax avoidance based on the social performance pillar and environmental performance pillar in the ASSET4 database and effective tax rates (ETR). We developed an empirical model that controls for factors related to firms' incentives to engage in tax avoidance. We also explore the effects of country-level institutional factors, including corporate governance and financial systems (CGFS), that may influence CSR engagement and tax avoidance.

3.1. Measuring CSR engagement

CSR engagement is measured using the data provided by the ASSET4 database.[7] Established in 2003, ASSET4 provides comparable and systematic information on CSR components and investment analysis tools that help investors construct their portfolios based on CSR and financial information (Hawn & Ioannou, 2016). It provides data on environmental, social and governance (ESG) categories and, in particular, it collects more than 750 evaluation points for each firm based on publicly available data. These publicly available information sources include firms' websites, annual reports, CSR/sustainability reports, non-governmental organizations' websites, proxy filings, and news from all major providers. These evaluation points are then used as inputs to a default equal-weighted framework to calculate more than 250 key performance indicators (KPIs).

7 Prior literature has widely used the KLD database (e.g., Arora & Dharwadkar, 2011; Chatterji & Toffel, 2010; Hong & Andersen, 2011; Huseynov & Klamm, 2012; Jo & Harjoto, 2012; Kim, Park, & Wier, 2012; Lanis & Richardson, 2015). However, Chatterji et al. (2009) report that the KLD ratings do not use publicly available data optimally, and some indicators are poor in terms of predicting CSR performance. Furthermore, this database is restricted to US firms only.

Furthermore, these 250 KPIs are organized into 18 categories within four pillars; these are (i) economic performance scores, (ii) environmental performance scores, (iii) social performance scores and (iv) corporate governance performance scores. Ziegler, Busch, & Hoffmann (2009) argue that the key advantage of ASSET4 indicators is that they are extensively built from publicly available sources. In contrast, other databases that offer CSR information (e.g., KLD) include highly subjective elements.

3.2. Measuring tax avoidance

Numerous measures are used in the extant tax literature as indicators of tax avoidance.[8] We measure tax avoidance using effective tax rates (ETR), a proxy extensively used by extant tax literature (e.g., Dyreng, Hanlon, & Maydew, 2008; Hanlon & Heitzman, 2010; Huseynov & Klamm, 2012; Lanis & Richardson, 2012b; Shackelford & Shevlin, 2001). Based on generally accepted accounting principles (GAAP), ETR compares current tax expenses with pre-tax income (Lanis & Richardson, 2012b). Firms that engage in aggressive tax strategies enjoy a lower ETR because they reduce their taxable income while maintaining financial accounting income. This measure captures non-conforming tax avoidance and tax deferral schemes (Chen et al., 2010; Lanis & Richardson, 2012b). It is a measure that has been adopted in several studies that investigate ETR using a cross-country sample (e.g., Lee & Swenson, 2012; Markle & Shackelford, 2012). We calculate ETR as current income tax expenses divided by pre-tax income.

3.3. The data

Our study focuses on listed firms domiciled in 12 countries for 2006–2019, namely, Australia, Belgium, France, Germany, Italy, Japan, South Korea, the Netherlands, Spain, Sweden, the UK and the US. These countries are selected because of data availability and the

8 These include GAAP effective tax rate, cash effective tax rate, permanent book-tax differences, abnormal total book-tax differences, temporary book-tax difference and unrecognised tax benefits. For more details about these alternative proxies of tax aggressiveness, see Table 1 of Hanlon and Heitzman (2010).

fact that domiciled firms have typically been involved in CSR activities and reporting for a substantial time. The initial sample comprises all firm-year observations (*N* = 26,991) for which CSR data are available.[9] Following the extant literature, we exclude (i) financial firms because of the unique nature of their reporting practices; and (ii) firms with missing data or with extreme values (*N* = 13,690). The final sample consists of 13,301 firm-year observations. Fundamental and financial data of firm-level variables are drawn from the Datastream database. We obtain country-level variables from prior research except for data for corporate statutory tax rates (CSTR), which are collected from the Organisation for Economic Cooperation and Development (OECD) website.

3.4. Empirical models

Our main objective is to investigate the association between CSR and tax avoidance. We estimate a series of fixed effects regression of the following model to examine our hypotheses:

$$ETR_{it} = \alpha_0 + \beta_1 CSR_{it} + \sum_{j=1}^{7} \beta_j \, Firm_level_{it} + \varepsilon_{it} \qquad 1(1)$$

where ETR_{it} is the effective tax rate (ETR1) computed as current income tax expenses divided by pre-tax income; a large ETR_{it} value implies higher effective tax rates, thus less corporate tax avoidance. CSR_{it} is the average score of ASSET4's social performance pillar and environmental performance pillar. Higher CSR_{it} values correspond to higher levels of CSR engagement. Both variables of interest, ETR_{it} and CSR_{it}, are proportions taking a value between 0 and 1.

9 Our empirical analysis starts from 2006 because of the general lack of CSR data in ASSET4 prior to that period.

In line with prior research (e.g. Amiram, Bauer, & Frank, 2019; Hoi et al., 2013; Huseynov & Klamm, 2012; Lanis & Richardson, 2015), a number of firm-specific characteristics ($Firm_level_{it}$) are considered in this study. These include firm age, performance, leverage, size, growth, foreign operations, aggregate loss, intangible assets, capital intensity, inventory intensity, equity income in earnings, dividend payout ratio, closely-held shares and auditors. We control for firm age (Age) as older firms are more likely to have more advanced tax avoidance strategies and behavior. Lanis & Richardson (2011) provide empirical evidence that the greater the firm's age, the greater the likelihood of tax avoidance.[10] This study also controls for firm size ($Size$) and firm growth ($Market - to - Book\ Ratio - MB$) as prior studies argue that firm size and growth can potentially explain substantial variation in tax avoidance and CSR engagement (e.g., Hoi et al., 2013; McWilliams & Siegel, 2001; Prior et al., 2008). Moreover, it is expected that larger firms are more likely to engage in tax avoidance activities as they have greater economic and political power than smaller size firms (Zimmerman, 1983).

Previous research provides evidence that firms' income from foreign operations offers them an incentive to engage in tax avoidance. Thus, we control for firms with a foreign operation ($ForeOpe$). Following Amiram et al. (2019), we include an aggregate losses variable ($Aggloss$) in order to control for the potential effect of consecutive accounting losses, as poor-performing firms are less likely to engage in tax avoidance but instead concentrate more on improving their profitability, compared to high-performing firms. This study also includes dividend payout ratio (DPR), computed as the ratio of dividend payment to earnings before extraordinary items and dividends (Hoi et al., 2013; Hope, Ma, & Thomas, 2013). Furthermore, a firm audited by a Big4 audit firm may have a lower incentive to engage in tax

10 Furthermore, a firm's behaviour regarding financial reporting, tax policies and CSR activities can vary as it matures (Kim et al., 2012), thus we include Age in the study model to control for its possible impact through different developmental stages of the business.

avoidance activities because of the higher quality audit provided by Big4 accounting firms. Thus, insofar as tax avoidance activities might vary in firms audited by a Big4 firm (McGuire, Omer, & Wang, 2012), this study includes an indicator variable (Aud) that takes a value of 1 if the firm is audited by one of the Big 4 auditors, and 0 otherwise.

In addition to these firm-specific control variables, the paper also investigates the relationship between CSR and tax avoidance after controlling for country-level control variables. We re-estimated our previous model after including seven country-specific control variables to control for their potential impacts on both CSR and tax avoidance as follows:

$$ETR_{it} = \alpha_0 + \beta_1 CSR_{it} + \sum_{j=1}^{7} \beta_j \, Firm_level_{it} + \sum_{k=1}^{6} \beta_k \, Country_level_{it} + \varepsilon_{it} \qquad ((2)$$

This study, first, controls for countries' financial disclosure requirement ($Disclosure$), as reported in La Porta, Lopez-de-Silanes, & Shleifer's (2006) study. The level of a company's information environment is determined based on its' country's required disclosure intensity (La Porta, López de Silanes, Shleifer, & Vishny, 1998). Higher scores for *Disclosure* indicate more increased county-level transparency. The second measure of country-level control is book-tax conformity (BTC), as in Atwood, Drake, Myers, & Myers (2012). Conformity between financial reporting and tax reporting requires a direct match between financial accounting policy choices and taxable income (Jaafar & Thornton, 2015). That is, companies operating in high-level book-tax conformity jurisdictions have less incentive to engage in aggressive tax strategies for profit maximization without reducing reported income (Desai & Dharmapala, 2009). According to Lee and Swenson (2012), book-tax reporting conformity requirements influence accounting policy choices to manage earnings upward, as such action results in increasing taxable income and, thus, taxes. Prior empirical studies (e.g., Atwood et

al., 2012; Lee & Swenson, 2012) find that firms operating in countries that require a high degree of book-tax conformity are, in general, less likely to engage in tax avoidance. Book-tax conformity can also act as an external monitoring tool that affects the opportunistic behavior of adopting CSR marketing tools to influencing various stakeholders' impressions by reducing the risk of a firm making undesirable decisions such as tax avoidance. That is, book-tax conformity restraints aggressive tax activities producing financial-tax variation, which decreases the firm's incentive to undertake CSR activities to dissimulate the negative effect of tax avoidance. Hence, we include book-tax conformity in our model to control for its influence on the link between CSR and tax avoidance. A higher BTC value corresponds to a higher level of agreement between financial and tax reporting.

Third, this study controls for the effect of the presence of a worldwide (WW) taxation system.[11] The extant literature (e.g., Atwood et al., 2012; Markle & Shackelford, 2012) shows the importance of the home country's tax system in determining corporate taxes and that corporate tax avoidance is less prevalent in countries adopting the worldwide tax system. Fourth, we include country-level ownership concentration ($OwnCon$), as reported in La Porta et al.'s study (1998), to control for its potential effect on the association between CSR and tax avoidance. Fifth, adopting the International Financial Reporting Standards (IFRS) is controlled for in our models, as acceptance of these standards has become mandatory since 2005 in some countries in our sample. We use an indicator variable ($IFRS$) that takes a value of 1 if the adoption of IFRS is mandatory, and 0 otherwise. Finally, we include corporate statutory tax rates ($CSTR$), as reported by the OECD, in the regression, as CSTR differs across countries and over time.

11 WW is an indicator variable that takes a value of 1 if a country uses the worldwide tax approach, and 0 otherwise. More details regarding tax systems (i.e., worldwide taxation or territorial taxation) can be found in Fleming Jr, Peroni, & Shay, (2008) and Atwood et al. (2012).

We also include fixed effects for both year and country to control for tax variations across time and countries, respectively. Similarly, the study controls for industry fixed effects using the two-digit Industry Classification Benchmark (ICB) industry code, as taxes differ across industries (Hanlon, 2005; Lev & Nissim, 2004). For ease of reading, our study's variable definitions are summarised in Appendix A. All firm-level continuous variables are winsorized at the top and bottom 1% of their respective distributions to mitigate the influence of outliers. In addition, all test statistics and significant levels are estimated with the firm- and year-level clustered errors.[12]

4. RESULTS

4.1. Descriptive statistics

Table 2 provides descriptive statistics of the sample distribution by country of domicile, ETR1 and country-level variables. Firms domiciled in the US account for the highest firm-year observations comprising 38.46% of the study sample, followed by Japan and the UK with 20.40% and 13.95%, respectively. The results indicate a marked difference in average ETR1 and CSTR across countries and that average ETR1 is, in general, lower than average CSTR, except for firms domiciled in Germany, Italy, Japan, and South Korea. This could result from other country-specific taxes that impose a burden on corporate income, for instance, additional sector-specific or regional tax rates (Gravelle, 2014). The table also shows the cross-country variations in average CSR engagement. In general, firms domiciled in European countries have the highest average CSR scores. Firms domiciled in France have the highest average CSR scores (0.636) in comparison to the CSR average for other countries in the sample. Firms

12 We also ran the regression model with firm-level clustered errors only as well as before adjusting standard errors by a two-dimensional cluster at firm and year level. The results are similar to those based on the regression model adjusted for standard errors by a two-dimensional cluster at firm and year level. For brevity, we do not discuss or tabulate the results of these regression models.

headquartered in the US and Australia score the lowest average CSR, i.e., 0.390 and 0.362, respectively.

For country-level characteristics, except for South Korea, all countries included in our sample score a very high degree of disclosure and transparency. France, Japan and Spain have greater conformity between book and tax reporting, whereas ownership concentration is high for Belgium, Italy and Spain. Worldwide tax systems exist in Australia, Italy, Japan, South Korea, the UK and the US.

(Insert Table 2 here)

Table 3 presents descriptive statistics of the full sample. The mean (median) value of ETR1 is 0.319 (0.313); this is comparable with prior studies' findings. The CSR scores range between 0 and 1, with a mean (median) of 0.561 (0.600); this is similar to those reported in studies by Ioannou & Serafeim (2012) and Cheng et al. (2014). The average country-level disclosure score is 93.88. The table also shows the means of country-level book-tax conformity and worldwide tax system scores are 0.375 and 0.849, respectively. The mean (median) values of Book-to-Market Ratio (BM) are 0.539 (0.451), respectively, indicating that the sample firms have high growth opportunities. Table 3 also shows that firms audited by the Big4 accounting firms represent around 95% of our sample. The descriptive statistics also show that firms tend to be older and larger, and approximately 16% operate internationally.[13]

(Insert Table 3 here)

4.2. Multivariate results

Regression results for the model in Equation (1) are reported in the first column of Table 4. The result shows a strong, negative and statistically significant impact of CSR on ETR1. In particular, the estimated coefficient of CSR is negative (-0.029) and highly significant ($p <$

13 In untabulated results, the correlation coefficients are relatively low and the variance inflation factors (VIFs) after running the regressions are lower than 10 for each explanatory variable, thus multicollinearity is not an issue in our analyses.

0.01). Our result suggests that firms with higher CSR scores enjoy lower tax burdens, implying higher levels of tax avoidance. That is, the likelihood of tax avoidance is higher in a firm with a higher level of CSR engagement. Although our result is at variance with findings reported by prior studies (e.g., Hoi et al., 2013; Lanis & Richardson, 2012b; Lanis & Richardson, 2015), it is consistent with Lanis & Richardson's results (2012a). Our results suggest that firms engage in organized hypocrisy, which involves appeasing stakeholders with CSR engagement while focusing on meeting the shareholders' demands and expectations for profits through lowering tax payments. This implies a gap between socially responsible talk, decisions, and action and thus provides evidence supporting 'organized hypocrisy.'

Our results are generally consistent with those reported in prior literature in terms of regression coefficients for firm-specific control variables. In particular, we find that $ForeOpe$ has a significantly negative relationship with tax avoidance, implying that firms with foreign operations are more likely to have lower tax expenditures. These results are consistent with Hoi et al. (2013) and Lanis & Richardson (2015). The results indicate that $Aggloss$ is positively and significantly associated with effective tax rates, suggesting that firms with consecutive book losses are more likely to pay taxes at a rate much closer to corporate statutory tax rates, as these firms concentrate more on profit-making activities rather than engaging in tax avoidance activities (Amiram et al., 2019).[14] Column (1) reveals that firm age is negatively associated with effective rates, positively linked to tax avoidance. In addition, column (1) shows that firms with higher dividend payout ratios are less likely to engage in tax avoidance activities.

Column (2) of Table 4 presents the re-estimated regression models of ETR1 on CSR after including country-level variables to control for home-country characteristics that may impact the relationship between CSR and tax avoidance. We include seven country-factor variables:

14 Furthermore, such firms have limited resources to be allocated in tax planning (Bauer, 2016).

indexes for national-level governance and disclosure scores, level of conformity between book and tax income, a worldwide tax system, state-level scores for ownership concentration, IFRS adoption and local statutory tax rates. It can be seen that the alternative test yields the same results, i.e., a negative and significant relation between CSR and effective tax rates (-0.031; $p < 0.01$), indicating that firms with high CSR scores are more likely to adopt tax aggressive strategies. In terms of country-level control variables, we find that corporate tax avoidance is lower in countries with (i) higher levels of disclosure; (ii) conformity between book and tax income reporting; and (iii) the adoption of the worldwide tax system. These findings are consistent with earlier findings by Atwood et al. (2012). However, firm-level tax avoidance is higher in countries with higher ownership concentration. Furthermore, column (2) results show similar relationships between other firm-level control variables and tax avoidance, as shown in column (1) of Table 4.

(Insert Table 4 here)

Following prior literature (e.g., Delmas & Toffel, 2010; Mackenzie, Rees, & Rodionova, 2013; Munari, Oriani, & Sobrero, 2010; Young & Marais, 2012), we explore the effects of country-level institutional factors, including corporate governance and financial systems (CGFS), on CSR engagement and tax practices. It is argued that the degree of monitoring and controlling of financial markets and market transparency are different across countries and thus may also influence a firm's behavior and the link between CSR and tax practices. Hall & Soskice's (2001) differentiate between two different types of capitalism characterizing advanced capitalist societies: (i) coordinated market economies (CMEs), e.g., Japan and Continental Europe, where dominant roles for coordinating economic activities are played by organized interests such as business unions and associations; (ii) liberal market economies

(LMEs), e.g., the US and the UK, where the market plays the dominant roles.[15] Firms domiciled in CMEs generally adopt a more stakeholder- and society-oriented approach than firms domiciled in LMEs (Kang & Moon, 2012). That is, firms domiciled in CMEs may have better CSR engagement and are more likely to consider social community areas (Young & Marais, 2012).

In contrast, drawing on neo-institutional theory and comparative institutional analysis, Jackson & Apostolakou (2010) find that firms domiciled in LMEs have higher performance on most CSR dimensions than firms domiciled in CMEs. To assess whether the relation between CSR and tax avoidance is affected by the type of institutional environment, we create a dummy variable equal to 1 for firms in CMEs (i.e., Belgium, France, Germany, Italy, Japan, South Korea, the Netherland, Spain and Sweden) and 0 for firms in LMEs (i.e., Australia, the UK and the US). First, we investigate the effects of the interaction terms between CSR and country-level corporate governance and financial systems on the level of tax avoidance. For this purpose, we include an interaction term between *CSR* and the dummy variable *CME*. Panel A of Table 5 shows a positive effect of the CSR and CME's interaction term on the tax avoidance level. Although *CSR* has a negative stand-alone impact on effective tax rates, the coefficient of the interaction between *CSR* and *CME* is positive and statistically significant at the 1% level. This result suggests that CSR firms domiciled in CMEs are less likely to avoid taxes than firms domiciled in LMEs. That is, the interaction coefficient (0.036) reduces the negative effect of the *CSR* coefficient. This interaction coefficient can be interpreted as the difference in tax avoidance between CSR firms domiciled in CMEs countries and firms domiciled in LMEs countries. These results imply that CSR firms domiciled in LMEs countries are more likely than firms domiciled in CMEs countries to engage in tax avoidance activities. We also

15 CMEs are characterised by weak markets for firm control, ownership by large investors, long-term debt finance, strong inter-firm cooperation and rather rigid labour markets, whereas LMEs are characterised by active markets for firm control, dispersed ownership, equity financing, weak inter-firm cooperation and flexible labour markets (Jackson & Apostolakou, 2010; Munari et al., 2010).

investigate the effect of country-level corporate governance and financial systems on the link between CSR and tax avoidance by re-estimating our model for each group of CMEs and LMEs. It shows that the *CSR* coefficient is negative but insignificant for CMEs (-0.008), whereas it is negative and significant for LMEs (-0.041; $p < 0.01$). This result indicates that CSR firms domiciled in LMEs are more likely than firms domiciled in CMEs to avoid tax. In sum, our findings support organized hypocrisy only for firms domiciled in LMEs countries. These firms employ CSR as a strategic tool to appease some stakeholders. This assists them in ensuring their survival and mitigating the negative social implications of tax avoidance.

Following Cho et al. (2012), we examine whether membership in environmentally sensitive industries (ESI) influences corporate tax behavior. Environmentally sensitive industries have an enormous negative impact on the natural environment in pollution or the destruction of wildlife habitat. This includes oil exploration, paper, chemical and allied products, petroleum refining, metals, and mining. Prior studies report a variation in the level of CSR engagement across industries (Cai, Jo, & Pan, 2011; McWilliams & Siegel, 2001; Waddock & Graves, 1997). Furthermore, given that firms in the same industry face similar challenges, their CSR policies and firms' operations must be comparable. We expect the levels of CSR investment and tax avoidance to differ between ESI and non-ESI firms. Panel B shows that although *CSR* has a negative stand-alone effect on effective tax rates, the coefficient of the interaction term between *CSR* and *ESI* is positive and statistically significant. This result suggests that firms that are operating in *ESI* are more likely to avoid taxes than non-*ESI* firms. That is, the interaction coefficient (0.018) reduces the negative effect of the *CSR* coefficient. This result indicates that ESI firms are more likely than non-ESI firms to avoid tax. Hence, our results support the organized hypocrisy hypothesis. This is related to firms operating in environmentally sensitive industries employing CSR as a strategic tool to placate non-financial stakeholders.

(Insert Table 5 here)

4.3. Robustness tests

To improve the generalizability of our findings, we perform a series of sensitivity tests using alternative measures of CSR engagement and tax avoidance. We assess CSR engagement using alternative measures described as follows. First, we create a dummy variable, CSR (*CSRDum*), equal to 1 if the firm's CSR score is above the overall median mark, and 0 otherwise, to examine the relation between CSR and tax avoidance for high-CSR firms as compared to low-CSR firms. Second, we use industry-adjusted CSR (*AdjCSR*) scores to control for the variation in CSR scores across industries (Cai et al., 2011; McWilliams & Siegel, 2001; Waddock & Graves, 1997). Third, we use the individual scores of each social performance and environmental performance pillar as a proxy for *CSR* to identify which of its component is associated with tax avoidance activities. In doing so, we re-estimate our regression models by replacing CSR with social performance pillar ($SOCI$) or environmental performance pillar ($ENVI$).

Panel A of Table 6 shows that alternative tests yield qualitatively similar results as our principal analysis. That is, we find that both the dummy CSR variable (*CSRDum*) and the industry-adjusted CSR scores (*AdjCSR*) have significantly negative coefficients. This finding is consistent with the previous results (in our primary analysis) supporting the arguments that firms engage in organized hypocrisy by using CSR to placate some stakeholders and to mitigate negative social implications, and simultaneously focus more important resources on actions meeting the expectations of more powerful stakeholders (by minimizing their tax obligations).

Panel A also shows that the coefficients for social performance (*SOCI*) and environmental performance (*ENVI*) are negative and significant at the 1% level. These results suggest that firms with higher social and environmental performance scores enjoy lower effective tax rates and higher tax avoidance levels.

In Panel B, we also use four alternative tax avoidance measures to examine the robustness of our prior results. First, following Richardson & Lanis (2007), we use an alternative criterion of the effective tax rate (*ETR2*), computed as current income tax expenses divided by operating cash flows, instead of pre-tax income in the previous equation estimating *ETR1*. Second, following Dyreng et al. (2008) and Atwood et al. (2012), we use long-run ETR (*LETR1*) as an alternative to using firm-year ETR1. Third, this study follows Amiram et al. (2019) and measures corporate tax avoidance as the ratio of ETR1 to CSTR (*ETR1Sca*) in the country in which a firm operates. A large ratio suggests less corporate tax avoidance relative to CSTR in the country where a firm resides. Finally, following Lanis & Richardson (2015), we use total book-tax differences (*TBTD*) as an alternative proxy measure of tax avoidance.[16]

Panel B of Table 6 illustrates the regression coefficient for CSR as negative and statistically significant at the 1% level for *ETR2*, *LETR1* and *ETR1Sca*. In terms of *TBTD*, we find that the regression coefficient for CSR is positive and statistically significant at the 1% level. These findings provide additional support for our prior regression results. We also re-estimate our models using these alternative proxy measures of tax avoidance and after including country-level control variables. Our analysis yields qualitatively similar results to the base model results. These findings support the notion that there is a positive association between CSR engagement and tax avoidance.

Given that firms domiciled in the US represent the largest proportion of our sample, we perform an additional analysis by (i) including only US firms and (ii) excluding US firms from our sample. The Panel C results show that the associations between ETR1 and CSR are negative and significant at the 1% level. These results are also consistent with prior reported results, thereby supporting our proposition that the majority of firms engage in organized hypocrisy instead of balancing the demands of heterogeneous audiences. This manifests itself

16 Unlike the ETR measures, higher values of TBTD correspond to higher levels of tax avoidance.

in a positive association between CSR and tax planning activities. Hence, our study supports the conjecture that firms engage in CSR to pacify non-financial stakeholders while engaging in tax avoidance to meet the expectations of shareholders who are most interested and affected by the firm's core operations.

(Insert Table 6 here)

Overall, the findings of our primary analysis and the sensitivity tests confirm a significant and positive association between CSR engagement and tax avoidance. This implies that firms predominantly engage in organized hypocrisy, which involves placating stakeholders with CSR engagement while focusing on meeting the demands and expectations of shareholders for profits through the reduction of tax obligations. This suggests an inconsistency between corporate talk, decisions, and action, thus supporting organized hypocrisy.

5. DISCUSSION AND CONCLUSION

This study provides comprehensive and robust evidence on the positive association between CSR engagement and tax avoidance using a cross-country sample. It suggests that MNCs use CSR engagement to compensate for opportunistic tax planning activities. The findings provide a better understanding of the relationship between CSR and tax aggressiveness. This may help to solve the puzzle of why there are significant cross-sectional variances in tax avoidance and what could explain these differences (Desai & Dharmapala, 2006; Dyreng et al., 2008). In addition, we find that firms' home-country characteristics and industry membership are essential in determining the link between CSR and tax avoidance. Particularly, firms domiciled in liberal market economies, such as the US and the UK, are more likely to engage in organized hypocrisy as a means of handling conflicting demands by heterogeneous audiences than firms domiciled in coordinated market economies. This is not

surprising, as liberal market economies are more capital-market focused and prioritize shareholders both in their corporate governance approaches and in their corporate income distribution. This, in turn, may result in more conflicting expectations of shareholders and stakeholders. In contrast, the conflict between shareholders and stakeholders (in coordinated economies) is at least partially resolved through formal mechanisms, such as collective bargaining and the presence of employee representatives on corporate boards. Thus, in coordinated market economies, dialogue and compromise are incorporated into formal negotiation mechanisms, which reduces the need for organized hypocrisy. Further, firms operating in environmentally sensitive industries are more likely to engage in organized hypocrisy, as they face more intense pressure from powerful environmental NGOs and the media for CSR engagement which is contradictory to shareholder demands for profit maximisation facilitated by tax avoidance.

In sum, our results suggest that firms engage in organized hypocrisy, i.e., they produce socially responsible talk (CSR engagement) that is inconsistent with their socially irresponsible actions (tax avoidance). This is particularly pronounced for firms operating in liberal market economies and in environmentally sensitive industries, as they face more intense contradictory moral-ideational pressures. There are two possible interpretations of organized hypocrisy (Lipson, 2007). It may either constitute intentional, strategic corporate behavior, or it "arises unintentionally from uncoordinated responses to conflicting environmental pressures on the part of loosely coupled or decoupled internal organizational elements" (Lipson, 2007, p. 7).

First, organized hypocrisy may constitute a consciously adopted opportunistic strategy to reduce the cost of action when faced with irreconcilable demands and expectations from diverse audiences. In this scenario, companies undertake CSR initiatives (e.g., eliminating pollution from the supply chain, supporting community projects) and produce glossy CSR reports demonstrating a commitment to corporate social responsibility, even though it is in

practice neither feasible nor cost-effective to comply with these norms in relation to corporate tax policy. Organized hypocrisy thus involves placating less powerful non-financial stakeholders with less costly social responsibility ‘talk’ (CSR engagement) while focusing more significant resources on actions that address influential shareholders’ expectations (reducing tax obligations).

Alternatively, organized hypocrisy may constitute the unintended and necessary consequence of companies operating in an environment characterized by “conflicting demands and norms, and expect that they should respond to them” (Brunsson, 1993b, p. 9). Inconsistencies between formal commitments to corporate responsibility towards society and actual behavior result from MNCs facing conflicting pressure from the prevailing economic system, emphasizing short-term probability. In contrast, civil society increasingly expects corporate social responsibility. In this case, organized hypocrisy is the inevitable consequence of short-term capitalism, which views corporate social responsibility as something that “can be said but not done” (Brunsson, 1993a, p. 490). Organized hypocrisy is enabled by the organizational structure of large MNCs, which comprises multiple, mostly independently operating units, each responding to specific audiences’ demands. For example, the Public Relations and CSR department tend to interact with non-financial stakeholders, civil society, and the media. In contrast, the Investor Relations department is responsible for interacting with shareholders and financial intermediaries.

If organized hypocrisy constitutes a deliberate opportunistic cost-reduction strategy, it is an issue of concern, as it not only diverts resources from civil society to shareholders via tax avoidance but also also gives rise to the unjustified public perception of firms as good corporate citizens (due to their formal commitment to corporate social responsibility). This is problematic for two reasons. First, it prevents non-financial stakeholders, civil society, and the media from challenging MNCs on tax avoidance. Second, it enables MNCs to receive unwarranted

economic, social, and political support. For example, companies engaging in organized hypocrisy may avert product boycotts, recruitment problems, and negative media attention, despite engaging in socially irresponsible behavior. Fixing the problem entails unmasking corporate duplicity related to corporate social responsibility by 'naming and shaming' MNCs, which engage in tax avoidance and publicly reframing tax avoidance as socially irresponsible behavior. This entails extending the concept of corporate social responsibility to include a commitment to contribute to the public finances in the countries that companies operate. International organizations (e.g., the OECD, the UN), social movement groups (e.g., the Tax Justice Network), NGOs (e.g., Oxfam), the media, and academics have been raising awareness that tax obligations are the most fundamental aspect of corporate social responsibility. In other words, meeting corporate tax obligations is a key aspect of good corporate citizenship.

CSR research needs to broaden out from 'explicit CSR' (i.e., formally articulated social and environmental issues that are perceived as part of the company's social responsibility) to 'implicit CSR' (i.e., broader responsibilities of companies addressing stakeholder demands and expectations and obligations towards society) (Matten & Moon, 2008). This entails analyzing tax disclosures in annual reports, CSR reports, and footnotes to financial statements and providing counter-accounts, highlighting strategic tax behavior, including attempts to redefine corporate tax obligations (Sikka, 2006). Finally, governments need to take tax avoidance seriously. The joint OECD/G20 Base Erosion and Profit Shifting project (OECD, 2017), which aims to provide governments with solutions for closing the gaps in existing international rules that enable companies to engage in aggressive tax avoidance, constitutes a step in the right direction.

Alternatively, if organized hypocrisy is conceived as an inevitable consequence of exposing companies to contradictory moral-ideational pressures that requires them to respond, then the problem lies with the prevailing economic system's inability to meet the needs of

shareholders and non-financial stakeholders and civil society. Corporate social responsibility is fundamentally incompatible with shareholder capitalism's values, particularly 'quarterly capitalism,'[17] which prevails in liberal market economies and focuses on "share price and thus short-term profit as pre-eminent measures of value" (Scott 2011, p. 568). If we want firms to take responsibility towards society seriously, we need to reform shareholder capitalism. As long as these calls for reform are ignored, MNCs, particularly those operating in liberal market economies, have no choice but to engage in organized hypocrisy to maintain legitimacy.

In conclusion, our study provides empirical evidence of organized hypocrisy relating to companies' responsibility towards society. This manifests itself in the counter-coupling of firms' formal commitment to corporate social responsibility with corporate socially irresponsible behavior in the form of tax avoidance. This is particularly pronounced for companies domiciled in liberal market economies characterized by short-term shareholder capitalism. Organized hypocrisy may constitute a deliberate opportunistic cost reduction strategy (i) placating non-financial stakeholders and civil society with less costly CSR activities (e.g., eliminating pollution from the supply chain, investing in community projects, and producing glossy CSR reports); while (ii) focusing more significant resources on satisfying the demands of shareholders by reducing tax liabilities. Alternatively, it may constitute the inevitable consequence of short-term shareholder capitalism prioritizing short-term financial gain for shareholders over long-term economic and social benefits for its shareholders and stakeholders. It thus views corporate social responsibility as something that "can be said but not done" (Brunsson, 1993a, p. 490). Irrespective of its underlying causes, organized hypocrisy has negative consequences for society. It diverts financial resources to shareholders via tax avoidance, thus depriving civil society of resources needed to fund public services and finance

[17] This is a term popularised by Hilary Clinton in a speech at New York University while on the campaign trail leading up to the presidential election in 2016 during which she was calling for a reform of short-term shareholders capitalism (Luce, 2015).

public goods. It also perpetuates social and economic inequality by obscuring the balance of the economic system in favor of shareholders, thus stifling any attempt to reform.

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Table 1: Relationship between CSR engagement and tax avoidance

	Organized hypocrisy	**Balancing contradictory moral-ideational pressures**
View of business organizations	Aggregation of loosely coupled / decoupled units	Rational unified actors
Solution to contradictory moral-ideational pressures	Prioritising shareholder demands for profit maximization	Balancing shareholder demands for profit and stakeholder demands for socially responsible behavior
Relationship between socially responsible talk, decisions, and actions	Non-aligned	Aligned
Relationship between CSR engagement and tax obligations	Compensatory: Counter-coupled (CSR engagement compensates for socially irresponsible tax avoidance)	Complementary: Coupled (CSR engagement is aligned with responsible tax behaviour)
Association between CSR engagement and tax avoidance	Positive (Hypothesis 1a)	Negative (Hypothesis 1b)

Adapted from Brunsson (1993a, 1993b)

Table 2 Sample domicile

	N	%	*ETR1*		*CSTR*	*CSR*	*Disclosure*	*BTC*	*WW*	*OwnCon*
			Mean	Median						
AUSTRALIA	977	7.35	0.286	0.289	30.0%	0.362	100.00	0.125	1	0.28
BELGIUM	128	0.96	0.230	0.223	34.0%	0.480	92.75	0.219	0	0.54
FRANCE	613	4.61	0.304	0.301	34.7%	0.636	100.00	0.783	0	0.34
GERMANY	512	3.85	0.304	0.292	23.1%	0.535	100.00	0.118	0	0.48
ITALY	227	1.71	0.385	0.363	31.4%	0.522	100.00	0.563	1	0.58
JAPAN	2,714	20.4	0.398	0.390	30.0%	0.495	100.00	0.706	1	0.18
SOUTH KOREA	398	2.99	0.272	0.252	23.9%	0.481	65.22	0.594	1	0.23
NETHERLANDS	216	1.62	0.222	0.231	29.3%	0.527	100.00	0.652	0	0.39
SPAIN	239	1.8	0.267	0.268	33.2%	0.615	92.75	0.906	0	0.51
SWEDEN	305	2.29	0.267	0.263	27.6%	0.524	100.00	0.424	0	0.28
UK	1,856	13.95	0.272	0.270	28.8%	0.505	100.00	0.469	1	0.19
US	5,116	38.46	0.316	0.326	35.0%	0.390	87.32	0.130	1	0.20
Total	13,301	100								

Note: This table presents the sample distribution by country along with a summary of descriptive statistics. The descriptive statistics are based on a sample using the ASSET4 database for 2006-2019. Our regression variables are defined as follows (i) *ETR1* is the first effective tax rates computed as current income tax expenses divided by pre-tax income; (ii) *CSTR* is the average corporate statutory rate over the sample period; (iii) *CSR* is the average scores of ASSET4's Social performance pillar and Environmental performance pillar; (iv) *Disclosure* is country-level scores for disclosure as reported by La Porta et al. (2006) and Bushman et al. (2004); (v) *BTC* is country-level scores for conformity between financial and tax income as reported by Atwood et al. (2012); (vi) *WW* is the country-level indicator for the presence of a worldwide taxation system as reported by Atwood et al. (2012); (vii) *OwnCon* is the country-level scores for ownership concentration as reported in La Porta et al. (1998).

Table 3 Descriptive statistics

Variable *(N = 13301)*	Mean	Median	SD	Min	Max	25th Percentile	75th Percentile
ETR1	0.319	0.313	0.127	0.003	1.000	0.251	0.378
CSR	0.561	0.600	0.293	0.063	0.943	0.273	0.852
Age	2.946	3.163	0.831	-0.800	3.893	2.550	3.591
Size	15.563	15.487	1.415	10.515	19.801	14.667	16.471
ForeOpe	0.149	0.000	0.268	0.000	0.901	0.000	0.195
BM	0.539	0.451	0.397	-0.287	3.118	0.269	0.721
Aggloss	0.012	0.000	0.109	0.000	1.000	0.000	0.000
DPR	0.422	0.294	0.637	-1.750	5.054	0.122	0.512
Aud	0.954	1.000	0.209	0.000	1.000	1.000	1.000
Disclosure	93.882	100.000	7.878	65.220	100.000	87.320	100.000
BTC	0.375	0.219	0.265	0.118	0.906	0.130	0.706
WW	0.849	1.000	0.358	0.000	1.000	1.000	1.000
OwnCon	0.239	0.200	0.095	0.180	0.580	0.190	0.230
IFRS	0.391	0.000	0.488	0.000	1.000	0.000	1.000
CSTR	0.311	0.300	0.044	0.158	0.350	0.300	0.350

Note: Our regression variables are defined as follows (i) *ETR1* is the first effective tax rates computed as current income tax expenses divided by pre-tax income; (ii) *CSR* is the average scores of ASSET4's Social performance pillar and Environmental performance pillar; (iii) *Age* is the firm Age; *Size* is the firm size; (iv) *ForeOpe* is the foreign operations; (v) *BM* is the book-to-market ratio; (vi) *Aggloss* is the aggregate losses; (vii) *DPR* is Dividend payout ratio; (viii) *Aud* is the dummy variable of the Big4 Auditors; (ix) *Disclosure* is country-level scores for disclosure as reported by La Porta et al. (2006) and Bushman et al. (2004); (x) *BTC* is country-level scores for conformity between financial and tax income as reported by Atwood et al. (2012); (xi) *WW* is country-level indicator for the presence of a worldwide taxation system as reported by Atwood et al. (2012); (xii) *OwnCon* is the country-level scores for ownership concentration as reported in La Porta et al. (1998); (xiii) IFRS is a dummy variable for the adoption of IFRS; and (xiv) *CSTR* is the average corporate statutory rate over the sample period. See Appendix A for more details about how variables are computed.

Table 4 Tax avoidance and CSR

	(1)	(2)
	ETR1	*ETR1*
CSR	-0.029	-0.031
	(0.005)	(0.005)
Age	-0.003	-0.004
	(0.001)	(0.001)
Size	0.001	0.003
	(0.001)	(0.001)
ForeOpe	-0.027	-0.028
	(0.004)	(0.004)
BM	0.010	0.012
	(0.004)	(0.004)
Aggloss	0.080	0.079
	(0.019)	(0.019)
DPR	0.042	0.043
	(0.003)	(0.003)
Aud	0.002	-0.001
	(0.005)	(0.005)
Disclosure		0.003
		(0.000)
BTC		0.052
		(0.005)
WW		0.031
		(0.005)
OwnCon		0.175
		(0.022)
IFRS		-0.115
		(0.003)
CSTR		-0.136
		(0.032)
Constant	0.274	0.056
	(0.019)	(0.030)
Industry fixed effects	*Included*	*Included*
Country fixed effects	*Included*	
Year fixed effects	*Included*	*Included*
Adj. R^2	0.221	0.211
F	78.763	86.678
N	13301	13301

Note: Our regression variables are defined as follows (i) *ETR1* is the first effective tax rates computed as current income tax expenses divided by pre-tax income; (ii) *CSR* is the average scores of ASSET4's Social performance pillar and Environmental performance pillar; (iii) *Age* is the firm Age; *Size* is the firm size; (iv) *ForeOpe* is the foreign operations; (v) *BM* is the book-to-market ratio; (vi) *Aggloss* is the aggregate losses; (vii) *DPR* is Dividend payout ratio; (viii) *Aud* is the dummy variable of the Big4 Auditors; (ix) *Disclosure* is country-level scores for disclosure as reported by La Porta et al. (2006) and Bushman et al. (2004); (x) *BTC* is country-level scores for conformity between financial and tax income as reported by Atwood et al. (2012); (xi) *WW* is country-level indicator for the presence of a worldwide taxation system as reported by Atwood et al. (2012); (xii) *OwnCon* is the country-level scores for ownership concentration as reported in La Porta et al. (1998); (xiii) IFRS is a dummy variable for the adoption of IFRS; and (xiv) *CSTR* is the average corporate statutory rate over the sample period. See Appendix A for more details about how variables are computed. The values in parentheses are standard errors. All test statistics and significant levels are estimated based on the standard errors adjusted by a two-dimensional cluster at the firm and year level.

Table 5 Moderation effects of country-level and industry membership on CSR and tax avoidance

Panel A Moderation effects of corporate governance and financial system

		CME	*LME*	Diff: *CME* - *LME*
	ETR1	*ETR1*	*ETR1*	
CSR	-0.045	-0.008	-0.04	0.026
	(0.006)	(0.007)	(0.006)	(0.009)
CME	-0.070			
	(0.013)			
CSR CME*	0.036			
	(0.008)			
Constant	0.321	0.352	0.345	
	(0.016)	(0.030)	(0.021)	
Adj. R^2	0.222	0.312	0.122	
F	77.773	56.884	34.570	
N	13301	5352	7949	

Panel B Moderation effects of membership in environmentally sensitive industries (ESI)

		ESI	Non-*ESI*	Diff: *ESI* – Non-*ESI*
	ETR1	*ETR1*	*ETR1*	
CSR	-0.047	-0.053	-0.036	-0.004
	(0.005)	(0.011)	(0.005)	(0.010)
ESI	-0.002			
	(0.006)			
*CSR*ESI*	0.018			
	(0.009)			
Constant	0.215	0.009	0.274	
	(0.017)	(0.040)	(0.022)	
Adj. R^2	0.198	0.103	0.241	
F	91.372	12.994	98.064	
N	13301	2870	10431	

Note: Our regression variables are defined as follows (i) *ETR1* is the first effective tax rate computed as current income tax expenses divided by pre-tax income; (ii) *CSR* is the average score of ASSET4's Social performance pillar and Environmental performance pillar; (iii) CME is a coordinated market economy; (iv) LME is a liberal market economy; (v) *ESI* is membership in environmentally sensitive industries. All test statistics and significant levels are estimated based on the standard errors adjusted by a two-dimensional cluster at the firm and year level.

Table 6 Robustness tests

Panel A: Alternative CSR proxies and pillars

	(1)	(2)	(3)	(4)
	ETR1	*ETR1*	*ETR1*	*ETR1*
CSRDum	-0.015			
	(0.002)			
ADJCSR		-0.000		
		(0.000)		
SOCI			-0.016	
			(0.004)	
ENVI				-0.032
				(0.004)
Constant	0.276	0.281	0.294	0.268
	(0.018)	(0.018)	(0.018)	(0.018)
Adj. R^2	0.221	0.221	0.219	0.222
F	79.025	78.326	78.182	79.391
N	13301	13301	13301	13301

Panel B Alternative tax avoidance proxies

	ETR2	*LETR1*	*ETR1Sca*	*TBTD*
CSR	-0.049	-0.030	-0.094	0.016
	(0.012)	(0.004)	(0.016)	(0.002)
Constant	0.503	0.278	0.960	-0.016
	(0.040)	(0.016)	(0.069)	(0.010)
Adj. R^2	0.086	0.377	0.296	0.218
F	36.652	129.246	95.089	60.003
N	12998	10773	13301	13301

Panel C Regression Results of US only firms and excluding US firms

	US Firms Only	Excluding US firms
	ETR1	*ETR1*
CSR	-0.031	-0.019
	(0.007)	(0.006)
Constant	0.421	0.249
	(0.029)	(0.025)
Adj. R^2	0.139	0.277
F	28.764	68.373
N	5116	8185

Note: Our regression variables are defined as follows (i) *CSRDum* is an indicator variable equals to 1 if a firm has CSR mean above the sample median and 0 otherwise; (ii) *ADJCSR* is the Industry- mean adjusted of the average scores of ASSET4's Environmental pillar and Social pillar; (iii) *SOCI* is the social pillar scores as obtained from ASSET4; (iv) *ENVI* is the environmental pillar scores as obtained from ASSET4; (v) *ETR1* is the first effective tax rates computed as current income tax expenses divided by pre-tax income; (vi) *ETR2* is the second effective tax rates computed as current income tax expenses divided by cash flow from operations; (vii) *LETR1* is Long-run ETR1 calculated as The sum of three-year ETR1; (viii) *ETR1Sca* is The ratio of the firm's ETR1 divided by the corporate statutory tax rate (CSTR) in the firm's country; (ix) *TBTD* is Total Book-Tax Differences computed as pre-tax income minus taxable income divided by the lagged total assets; (x) *CSR* is the average scores of ASSET4's Social performance pillar and Environmental performance pillar. The values in parentheses are standard errors. All test statistics and significant levels are estimated based on the standard errors adjusted by a two-dimensional cluster at the firm and year level.

Appendix A: Variable definitions

Variable	Description	Definition
ETR1	Effective tax rate	The current tax expense divided by pre-tax income
CSR	CSR scores	The average scores of ASSET4's Environmental pillar and Social pillar
Age	Firm age	The natural logarithm of the firm age in years
Size	Firm size	The natural logarithm of total assets
ForeOpe	Foreign operation	The total income of the firm's foreign operation.
MB	Market value to book value	The ratio of the market value of equity to book value of equity
Aggloss	Aggregate losses	An indicator variable equal to 1 if the sum of earnings before extraordinary items and dividend for both the current and previous fiscal years are less than 0, and 0 otherwise
DPR	Dividend payout ratio	The ratio of dividend payment to earnings before extraordinary items and dividend
Aud	Big4 auditors	An indicator variable equal to 1 if a Big4 auditing firm audits the firm, and 0 otherwise.
Disclosure	Disclosure scores	The Country-level disclosure scores. Higher scores indicate a better disclosure and greater transparency.
BTC	Book-tax conformity	The Country-level index for the level of conformity between book and tax income. Higher scores indicate better conformity between book and tax income.
WW	Worldwide tax system	The Country-level Indicator variable for the presence of a worldwide tax system. Equal 1 if the country has a worldwide tax system, 0 otherwise
OwnCon	Ownership concentration	The Country-level scores for ownership concentration. It is computed as the average percentage of common shares owned by the three largest shareholders in the ten largest non-financial, privately-owned domestic firms in a given country. The higher the scores is the more concentrated ownership.
IFRS	IFRS adoption	An indicator variable equal to 1 if the country mandates the use of IFRS, and 0 otherwise.
CSTR	Corporate statutory tax rate	The Corporate statutory tax rate in each jurisdiction and each year