UNIVERSITY OF SOUTHAMPTON

FACULTY OF BUSINESS AND LAW

School of Management

The Relationship between Corporate Social Responsibility (CSR) and The Extent of Tax Planning

by

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Thesis for the degree of Doctor of Philosophy

September 2017

UNIVERSITY OF SOUTHAMPTON

ABSTRACT

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THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND THE EXTENT OF TAX PLANNING

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By employing stakeholder, legitimacy augmented by value maximisation theory and supplementing agency, this study investigates the relationship between Corporate Social Responsibility (CSR) and tax planning, where the tax authority and the public are assumed as important stakeholders in a high tax-regulation environment. Using the UK setting, this study selects a total of 76 non-financial publicly quoted companies listed on the London Stock Exchange (LSE) for a 10-year duration (2005 – 2014) based on matched data between book tax differences (BTD and its components) and CSR data (Environment, Social and Governance (ESG) ratings by ASSET4, a Reuters business information group). At the initial stage, this study found a weak positive association between aggregate CSR and the extent of tax planning. Product responsibility, human rights considerations and training and development under CSR social dimensions are found to be significantly related to the extent of tax planning. The relationship of CSR and tax planning changed with the existence of corporate governance as a moderating variable. The association of CSR and tax planning is found to be negatively significant at the higher quantile of permanent difference (PD) with the existence of interaction between corporate governance and CSR. In addition, corporate governance is found to be strongly and negatively significant to the extent of tax planning at the higher quantile of permanent difference (PD). This study also found that there is no relationship between previous years of tax planning and CSR, suggesting that there is no evidence that CSR is used as a strategic tool by companies to repair the threat posed by aggressive tax planning. This study provides evidence that companies' attitudes towards CSR are related to the extent of tax planning activities when the risks of tax planning become substantial or aggressive

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Acknowledgements

My humble gratitude to God as only with His permission that I can complete this thesis and finish my study.

First and foremost, I would like to express my sincere gratitude to my principal supervisor, Associate Professor Dr Oliver Marnet for his continuous support of my PhD study, for his knowledge, patience, motivation and prompt action and respond on any matters related to my research. Besides my primary supervisor, I would like to thank my co-supervisor, Professor Kevin Holland for his knowledge, guidance and advice during the early stage of my study. His wisdom and insight always help me in moving forward and finish this study. My sincere thanks also go to Dr Norshaipah Abdul Wahab for all of her assistance during my research especially the tax data from 2005 to 2010 which I continue from her study. I also thank the external and internal examiners who had approved my thesis either in the upgrade level or final viva voce.

My second gratitude goes to Tunku Puteri Intan Safinaz School of Accountancy (TISSA), Universiti Utara Malaysia (UUM) and Ministry of Education of Malaysia for granting me study leave and provision of funding to embark on this PhD study. Without their support, this journey would not be accomplished. Besides, I thank the University of Southampton especially School of Management for the conducive environment they held throughout my study.

I would also like to express my special thanks to my beloved husband and daughter for their continuous understanding, time and supports along this journey. Their hopes and hugs give me inspiration and motivation towards finishing this study. This special gratitude also goes to my beloved mother and mother in law, as well as all my siblings and family who always pray, believe and inspire me to the finishing line. I also could not thank enough to my Malaysian friends in Southampton who never left me in an easy or difficult time especially during our family's battle against my husband's cancer. Their support and assistance were extraordinary, and I would not be able to forget that. My pray is that God will repay and ease all them in every path they are undertaking. I would also like to thank all my officemates who always make the study environment cheerful and stressed away condition.

Last but not least, I thank all my friends who support me directly or indirectly in completing this PhD study. Thank you.

Definitions and Abbreviations

CSR	Corporate Social responsibility
BTD	Book tax differences
PD	Permanent differences
TD	Timing or temporary differences
STRD	Standard rate differences
TOTCSR	Corporate social responsibility
ECON	Economic dimension performance
ENV	Environmental dimension performance
SOCL	Social dimension performance
ECPE	Financial performance component in economic dimension
ECSL	Shareholders' loyalty component performance in economic dimension
ECCL	Clients' loyalty component performance in economic dimension
ENER	Emission reduction component performance in environmental dimension
ENPI	Product innovation component performance in environmental dimension
ENRR	Resource reduction component performance in environmental dimension
SOPR	Product responsibility component performance in social dimension
SOCO	Community component performance in social dimension
SOHR	Human Rights component performance in social dimension
SODO	Diversity component performance in social dimension
SOEQ	Employment quality component performance in social dimension
SOHS	Health and safely component performance in social dimension
SOTD	Training and development component performance in social dimension
CORPGV	Corporate governance dimension performance

CSC	Business specific characteristic
MV	Market value
CAPEXTA	Ratio of capital expenditure per total assets
CAPEXTS	Ratio of capital expenditure per total sales
NSALES	Net sales or revenues
INTSALES	International sales
SIZE	Total assets
LTDEBT	Long term debts
SNDEXP	Selling, administration and general expenses
SNDPERSAL	Ratio of selling, administration and general expenses per sales
ROA	return on assets
MARGIN	Operating profit margin
LEVERAGE	Ratio of long term debts per total assets

1. Introduction

This study has been conducted to examine the relationship between corporate social responsibility (CSR) and the level of corporate tax planning activities (measured by Book Tax Differences (BTD)). This study also examines whether the relationship between CSR and the level of tax planning is moderated by corporate governance performance.

This study employs the positivism approach and applies quantitative analysis to support the possible relationships between CSR and the level of corporate tax planning. Secondary sources of data have been used as proxy to imply the companies' attitude to tax planning, CSR, and the efficiency of corporate governance.

In order to introduce the topics being studied, this chapter is going to cover the discussions about the background of the study, the scope of the study, the research's aims and objectives, the research questions, the contributions of the study and finally the thesis structure. The theoretical framework has been presented at the end of this chapter.

1.1 Background of the Study

Tax planning has been defined as the reduction of explicit taxes which does not involve tax evasion which by definition is illegal (Hanlon & Heitzman, 2010) and tax itself is a mediator for the government to directly intervene in companies' corporate affairs through tax authorities (Avi-Yonah 2004).

Tax planning activities have been subjected to high pressure from tax authorities internationally. In the UK, the tax authority, HMRC, is very aggressive in tackling and finding the best way to prevent tax avoidance by gradually introducing new anti-avoidance rules and regulations. They began their stricter enforcement with the introduction of The Disclosure of Tax Avoidance Schemes (DOTAS)[1] rules in 2004, followed by The Hampton Review in 2005 which required tax authorities to provide a risk assessment on corporations in terms of their potential engagement in tax avoidance (HM Treasury, 2004). In the year 2010, HMRC introduced another regime called the General Anti-Abuse Rule (GAAR) which was implemented in 2012 and aimed to tackle and deter artificial and abusive tax avoidance schemes by taxpayers. Up to 2014, HMRC listed 23 tax avoidance schemes under its spotlight (HMRC, 2014).

The stern enforcement carried out by HMRC is coupled with the development of financial reporting requirements. The Financial Reporting Corporation (FRC) and European Financial Reporting Advisory Board (EFRAG) are collaborating to improve the transparency of income tax reporting in financial statements to increase its usefulness for users. This collaboration has been taking place since 2011. Amongst the discussions related to income tax reporting are the increases in disclosure of tax positions which portray the tax behaviour of companies. This movement might eventually provide more information to stakeholders pertaining to companies' tax behaviour as companies need to be more transparent.

As a consequence, it is becoming riskier and more difficult for companies to engage in aggressive tax planning activities. Companies engaging in tax avoidance face the risks of being audited and accused under tax avoidance sanctions if found guilty. These processes would involve significant risks and costs for the company, which will result in both financial losses and non-financial bad reputation.

Despite the stern pressures on aggressive tax planning activities, the HMRC reported a significant tax gap. In 2013, after the implementation of GAAR, HMRC (2013) reported that the UK tax gap amounted to £34 billion and tax avoidance involving corporation tax approximately accounted for £1.3 billion between year 2012 – 2013.

These circumstances have been among the issues debated in tax research (Hanlon & Heitzman 2010). The authors expressed concern over companies still engaging in tax avoidance activities despite the potential risks as a result of stern enforcement by

[1] DOTAS became effective on 1 August 2004 on limited scope of tax covering employment income and certain financial products. The scope was widened from 1 August 2006 to cover all Income Tax, Corporation Tax and Capital Gains Tax.

HMRC. Concerns over the risks of tax avoidance triggered the question of the way companies might perceive the risks of aggressive tax planning activities. Companies might have strategies for how they assess and evaluate business risks such as those involved in aggressive tax planning activities.

Since tax matters involve external stakeholders, especially the tax authority and the public as the receiver of the tax redistribution benefits, the concept or strategies linked to the various stakeholders are related to corporate social responsibility (CSR), which is about the fulfilment of competing stakeholders' demands.

CSR could be understood as a broad concept of business activities which is based on stakeholders' mutual interest and companies' perceptions upon the stakeholders' importance. CSR is always seen by scholars to advocate balanced responsibilities towards stakeholders and uphold moral and ethical values as its central discussions (Carroll, 1979; McWilliams & Siegel, 2001; Aguinis, 2011). CSR is also known as a function of a dimensional approach in stakeholder theory.

In respect of tax planning activities, the level of risks in undertaking this type of activity depends on their extent. The management of the companies might have evaluated the risks of tax planning before undertaking or pursuing their actions. Evaluation of the risks of tax planning activities might involve concepts embedded in the companies' strategic decisions such as CSR. When linking CSR to the risks of tax planning, this study raises a general question,

Does attitude to CSR relate to attitude to tax planning?

It is a question whether companies consider tax matters, especially tax planning activities, in their CSR. Avi-Yonah (2004) claimed that tax is linked to the CSR based on the influence of the tax authority as a stakeholder who possesses the power to assess companies' tax affairs and impose penalties.

However, the link between CSR and tax planning is subject to conflicting theoretical debates and different views of the companies as business entities and the public as external users and stakeholders in relation to CSR and the legitimacy of tax planning activities (Dowling 2014; Sikka 2010; Hasseldine & Morris 2013; Sikka 2013). For instance, in respect of tax planning, companies might possess their own philosophical assumptions about tax (Avi-Yonah, 2008). Companies might take the traditional economic point of view (Jensen 2010) and consider organizational legitimacy theory in their justifications of whether any activities are legitimate or not in the competitiveness of the companies. For example, companies always focus on maximising their returns through tax management (Scholes et al. 1992). There are cases where companies avoid tax due to inconveniencies and weaknesses in the tax system (Alm, 2014), while curiosity over the government budget and distribution might change the way companies perceive tax payment (Hasseldine et al., 2011), hence leading them to engage in tax avoidance activities.

In respect of CSR, there are perception gaps between companies as commercial entities and the end users or external stakeholders due to the broad and flexible definitions of CSR (Dahlsrud 2008). Dahlsrud (2008) contended that, for a business, CSR always had economic, environmental dimensions at the conceptual level, based on its impact on their stakeholders. Dahlsrud emphasised that the concept of CSR should be considered when business strategy is developed. Perception gaps happened due to the misunderstanding of what constitutes business CSR. Public often refer to CSR based on its ethical and moral definition, e.g., emphasizing that CSR emphasises community involvement, resulting in a claim that companies exhibit lack of CSR (Dowling 2014; Hasseldine & Morris 2013).

Previously, Glaister & Hughes (2008) in their attempt to link tax matters to the business strategy, found that tax matters do not precede strategy decisions and tax is considered as one of many costs that have to be managed. However, with the development and acceptance of CSR as a social construct for the business, CSR and its three-dimensional concept may cause companies' management to weigh legal and community considerations into their strategic decision making. Particularly, in a high-tax environment such as UK, companies might consider the risks of tax planning in their strategic decision-making, in which CSR is becoming an increasingly central issue in the global economy.

There are several examples of normative discussions relating to CSR and tax planning (see (Avi-Yonah 2004; Avi-Yonah 2005; Avi-Yonah 2009; Carroll & Shabana 2010; Gribnau 2015; Dowling 2014)). The discussions have been lingering around conflicting views on tax planning activities and the perception gap of the stakeholders over the shape of CSR in business. Empirically, there are only a few studies relating to CSR and tax planning, such as Watson (2011), Lanis & Richardson (2012), Huseynov & Klamm (2012), Keung Hoi et al. (2013)

Previous studies presented mixed results on the associations of CSR and the level of tax planning. Huseynov & Klamm (2012) found that socially responsible companies undertook less tax planning activity compared to socially irresponsible companies. Similarly, Lanis & Richardson (2012) and Keung Hoi, Wu, & Zhang (2013), found that companies with high CSR performance were associated with less tax avoidance activity. Watson (2011), on the other hand, found that companies with high CSR performance exhibited a high level of tax planning activities. Besides being conducted outside the UK, however, previous studies presented a lack of justification on the theoretical links in establishing a relationship between CSR and the level of tax planning.

In addition, as mentioned above, the risks of tax planning activities requires the involvement of companies' management to apply CSR to business concepts to make strategic decisions. This matter might be related to the interaction of corporate governance as an internal control mechanism for the business. However, the function of corporate governance was not investigated further in terms of its effect on the relationship between CSR and tax planning.

As UK is experiencing increasing enforcement in the area of tax planning, this study is required in order to see whether companies are considering the risks of tax planning in their business strategic decisions when CSR has become an increasingly important concept in business. This study has been carried out using organisational legitimacy theory (Suchman 1995) augmented by value maximisation theory (Jensen 2010) as main theories; supplemented by stakeholder theory in developing a possible theoretical relationship between CSR and the extent of tax planning in the UK. Focusing on non-financial quoted companies listed on the London Stock Exchange (LSE) from 2005 to 2014, this study has been carried out to investigate the association between CSR and the extent of tax planning by employing book tax differences (BTD) and its components, namely permanent difference (PD), temporary tax difference (TD) and statutory tax rate difference (STRD) as the measurement of different levels of tax planning activities. In addition, this study investigates the function of corporate governance in moderating the relationship between CSR and the extent of tax planning.

1.2 Operational Definition

In this study, UK is assumed as high tax regulations context as a lot of enforcement towards tax planning have taking place since year 2005 to recent i.e. DOTAS, Hampton Review, GAAR, and EFRAG.

The extent tax planning has been referred to the level of book tax differences (BTD) and its components which are also components of tax savings namely permanent tax differences (PD), temporary tax differences (TD) and statutory tax rate differences (STRD). Aggressive tax planning terminology has been used interchangeably with tax avoidance throughout this study.

Corporate social responsibility (CSR) is instrumentally divided into economic, environment and social dimensions as provided in the ESG ASSET4 external ratings provided by Thompson Reuters which is available via DataStream. The economic dimension includes client loyalty, performance and shareholders loyalty components. Environmental performance consists of resource reduction, emission reduction and product innovation components. Social dimension consists of employment quality, health and safety, training and development, diversity, human rights, community and product responsibility.

1.3 Scope of the Study

For the purpose of CSR and tax data availability, this study has been conducted on UK non-financial public quoted companies listed on the London Stock Exchange (LSE) from year 2005 to 2014.

This study covers from 2005 to 2014 in order to observe the effects of the UK tax authority’s enforcement of tax avoidance activities (DOTAS, Hampton Review, GAAR) on the relationship of between CSR and the extent of tax planning.

1.4 Research objectives

1.4.1 To investigate the level of tax planning of the non-financial companies quoted on the LSE.

1.4.2 To investigate the level of CSR performance in the non-financial companies quoted on the LSE.

1.4.3 To examine the relationship of the CSR and the level of tax planning in the non-financial companies listed on the LSE.

1.4.4 To examine the relationship of the perceived dimensions of CSR namely economic, social and environmental performance and the level tax planning in the non-financial companies quoted on the LSE.

1.4.5 To investigate the moderating effect of corporate governance characteristics on the relationship of CSR and the level of aggressive tax planning in the non-financial companies quoted on the LSE

1.4.6 To investigate whether there is a relationship of previous years' tax planning activities on the future CSR performance in the non-financial public quoted companies listed on LSE.

1.5 Research Questions

1.5.1 In order to fulfil the above-mentioned objectives, the following research questions have been raised:

1.5.2 Does the companies' attitudes to CSR relate to their attitude to tax planning?

1.5.3 Does the companies' attitudes to the different dimensions of CSR relate to their attitude to tax planning?

1.5.4 Do corporate governance attributes moderate the relationship between CSR and the level of tax planning?

1.5.5 Do previous years of companies' tax planning activities relate to their future CSR activities?

1.6 Contributions of the Study

This study has employed certain theories such as legitimacy theory, the theory of value maximisation agency theory and stakeholder theory. In addition, this study applied systematic research methodologies and links to the empirical data. Therefore, the completion of this study contributes to the existing knowledge in term of theoretical, methodological and empirical studies. In short, the contributions of the study are as follows:

1.6.1 Adds to the knowledge about the relationship between CSR and the extent of tax planning activities in the UK

1.6.2 Extends the literature relating to the parameters of legitimacy theory, profit maximisation theory, agency theory and the stakeholder theory in investigating the relationship between CSR and the extent of tax planning.

1.6.3 Introduce corporate social responsibility (CSR) data available from the third party external ratings.

1.6.4 Provide insight on the relationship between business concepts such as CSR to the financial related activities like tax planning.

1.6.5 Extends the literature relating to the implication of CSR towards corporate culture especially tax planning activities.

1.6.6 Extend the literature and methodologies in term of measurement of tax planning using book tax differences (BTD) and its component; permanent differences (PD), temporary differences (TD)and the statutory tax rates differences (STRD).

1.6.7 Adds to the literature relating to the moderating effect of corporate governance functions on the relationship between CSR and the extent of tax planning activities.

1.6.8 Extends the practical insight to the stakeholders in understanding the framework of companies' CSR, corporate governance and tax planning activities

1.7 Thesis Structure

This thesis consists of 6 chapters. The structure of the thesis will be as follows:

Chapter 1

Chapter 1 outlines the background of the study, the scope of the study, the research aims and objectives, the research questions, the contributions of study and the thesis structure sections as well as theoretical frameworks

Chapter 2 consists of the literature review and hypotheses development. This chapter elaborates on the possible theoretical links pertaining to the establishment of the relationship between CSR and aggressive tax planning. This chapter also outlines the hypotheses developed for the purpose of this study.

Chapter 3 consists of theoretical frameworks and detail hypotheses developments of this study.

Chapter 4 presents the research designs relating to data collection, the measurement of independent and dependent variable and the model specifications for regression analysis.

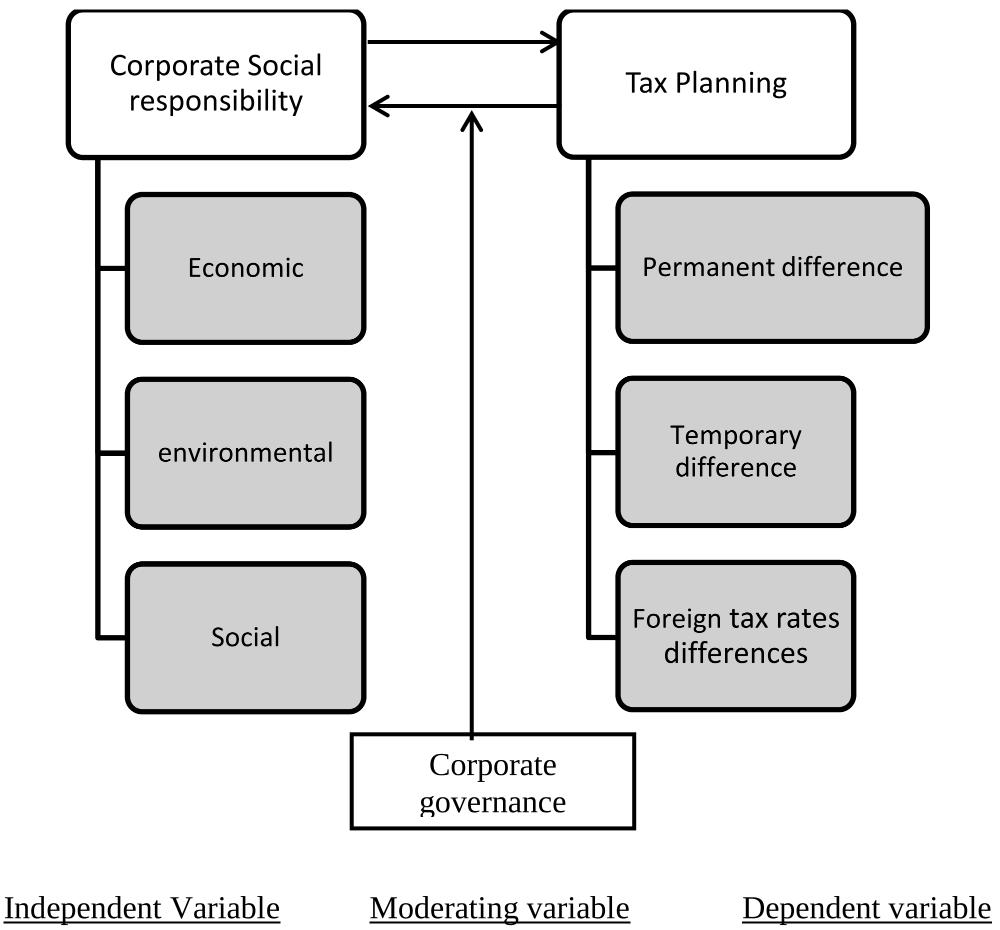
Chapter 5 presents the initial data analysis consisting of descriptive statistics for dependent, independent and control variables this chapter also presents results of multicollinearity and model fitness test.

Chapter 6 discusses the findings from the hypotheses testing. This chapter also discuss the research questions and the implications of this study to theory and practice. This chapter continues with the limitation and recommendations for future research. Ultimately this thesis ends with conclusion of the study.

1.8 Theoretical Framework

Figure 1-1 below depicts theoretical framework for this study which the details are explained in section 1.2Operational Definition and section 4.3Variable Definitions and Measurements on page 6 and 65.

Figure 1-1: Theoretical Framework based on operational definition



2. Literature Review

2.1 Introduction

The aim of this study is to investigate the relationship of corporate social responsibility (CSR) and the of corporate tax planning. This study also aims to investigate the moderating effect of corporate governance on the relationship between CSR and the extent of tax planning. Therefore, establishing the theoretical and empirical associations between CSR and the level of tax planning is particularly important in order to generate specific research questions and hypotheses. This chapter starts with the discussion of theories of CSR; stakeholder theory and legitimacy theory. Then, this chapter proceeds to a brief discussion pertaining to definitions of CSR to highlight some differences and development in defining CSR. The discussions of theories and definitions of CSR lead to the argument on the motives of CSR as well as empirical implications of CSR. Next, a brief introduction on how CSR performance are measured in previous studies are presented to provide initial background of CSR data measurement that will be discussed in data specification chapter. This chapter ends with the conclusion section to wrap up all of its discussion.

This chapter is aimed at discussing the possible theoretical and previous empirical studies of the relationship between CSR and corporate tax planning behaviour. The discussion of the relationship will lead to the formulation of the research hypotheses to predict the companies' attitude towards CSR associated with the attitude towards tax planning. This chapter also includes the discussions on the interaction of corporate governance in moderating the relationship between CSR and the level of tax planning.

2.2 Theories related to the relationship between CSR and tax planning

The relationship of corporate social responsibility (CSR) and the level of tax planning is argued to be based on organisational legitimacy theory (Suchman 1995), the theory of value maximisation augmented by agency theory (Jensen & Meckling 1976; Jensen 2010) and stakeholder theory (Freeman, 1984; Freeman et al., 2010). The conflicts between social theories such as CSR and the traditional economic theory of value maximisation create a complicated debate about the possible relationship between CSR and the level of tax planning.

2.2.1 Organisational Legitimacy Theory

The concept of organisational legitimacy has been defined by Suchman (1995) as *"a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions"* (Suchman 1995: 574). Legitimacy theory deals with the process of acquiring legitimate status or being acceptable, being appraised by society (Dowling & Pfeffer 1975) or possessing the stakeholders' perception for long-term survival (Suchman, 1995).

Organisational legitimacy is translated into the business environment by two approaches; strategic and institutional (Suchman 1995). Suchman (1995) explained that strategic legitimacy reflects the managerial perspective in an organisation to deploy and manipulate situations in order to gain support from stakeholders. Institutional legitimacy exhibits the ability of the stakeholders to create a cultural pressures on the orientation of companies' activities (Suchman 1995).

Strategic organisational legitimacy approach is linked to the *'pragmatic'* type of legitimacy. According to Suchman (1995), pragmatic legitimacy is based on self-calculation or an assessment by the companies' most immediate audience (also known as the "conferring party" (O'Donovan , 2002) or "salient" (Agle et al. 1999)) as discussed in the subsections 2.2.2 Stakeholder Theory. This conferring party is able to scrutinise the company's behaviour where they expect and perceive direct tangible rewards as being accountable as an exchange with legitimacy. They may be constituencies such as legal major shareholders, authorities i.e. government, tax authority, customers, suppliers, employees and NGOs in which their disapproval would produce a severe threat to the companies' legitimacy (Dowling & Pfeffer, 1975).

The institutional approach, on the other hand, is more of a consoling, "moral" type of legitimacy. Suchman (1995) elaborated on the statement that moral evaluation is assessed by the company's outputs and consequences, techniques and procedures, categories and structures as well as on its leaders and representatives. This is based on the social norms and ethics within the context (Elsbach & Sutton 1992). Elsbach & Sutton (1992) found that firms communicate and protect legitimacy through their spokesperson to defend or justify their actions.

Suchman (1995) introduced cognitive legitimacy, or in other words, 'taken for granted' legitimacy. Suchman (1995) claimed that although cognitive legitimacy is occasional, it is still attained by special companies because of their uniqueness and exceptional operations e.g. companies having unique technological resources or monopolising the outputs of certain special products. Cognitive legitimacy is gained *albeit* by companies that choose to ignore positive, negative or zero evaluations from their stakeholders. The author concluded that moral and cognitive legitimacy are difficult to gain, due to its expansive evaluation and method of being judged largely through open public discussions. However, once it is gained, it is not easy for the company to go on to be questioned and doubted in the future.

Scholars found that companies apply both approaches being strategic and institutional in the process of gaining legitimacy since legitimacy status has to be both gained and maintained. In the studies done by Dowling & Pfeffer (1975)[2], they examined how companies acquired acceptance and responded to the criticisms and comments raised by stakeholders about their previous actions by way of proactive actions (institutional

[2] Three case studies were presented in Dowling and Pfeffer (1975).

approach) (Suchman 1995) and taking different moves - i.e. changing the goal[3], method[4] of operation and highlighting the output[5] - to achieve congruence with the norms and values of the respective societies they were involved in (O'Donovan , 2002; Elsbach & Sutton, 1992). Through communication or disclosure, O'Donovan (2002) identified that companies can also attempt to alter the definition of legitimacy. The alterations are made up with the identification of symbols, value or the institutions having strong base in social legitimacy matters (Dowling & Pfeffer 1975; Suchman 1995; Elsbach & Sutton 1992). Some companies just attempt to conform to the key stakeholders' demands as corrective actions to regain legitimacy. This phenomenon shows that firms are continually trying to ensure that their operations are aligned with the current social systems in order to be perceived as being legitimate (Dowling & Pfeffer 1975; Suchman 1995).

Although legitimacy can be both confirmed and gained, it is also a need to maintain it because there is a possibility that legitimacy can be threatened (Holland et al. 2013; Dowling & Pfeffer 1975). Legitimacy is threatened when there are inconsistencies or *"legitimacy gaps"* (O'Donovan , 2002) noticed by conferring party. A legitimacy gap occurs when there are disparities that exist between the company's engagements and current social system due to changes in the company's activities e.g. imitation failures, innovations (Suchman 1995), a clash of illegitimate activities amongst the legitimate structures and procedures (Elsbach & Sutton 1992), or changes in the social system itself i.e. evolving social awareness, regulatory or institutional pressures, media influences, interest group pressures and corporate competition and crisis (O'Donovan , 2002; Holland et al., 2013). In other words, there is a clashed between what the key stakeholder requires and the firms' conducts.

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[3] YMCA changed their religious-nature operation into a more secular-nature to align with the secularisation of American society.
[4] Pharmaceutical firms do not use pigeons for testing defective pills due to the expected legitimate issue.
[5] The American Institute for Foreign Study (AIFS) highlighted the list of schools who received credit from prominent European Universities for their summer programme.

However, Suchman (1995) further argued that though legitimacy is generally dependent on a collective audience, it is independent between particular stakeholders. For example, for the company to have a different value, legitimacy can still be retained as the disparity does not attract a larger influential group i.e. key stakeholders or “conferring publics” (O’Donovan , 2002). Elsbach & Sutton (1992) also added that in order to maintain legitimacy, firms may fulfil the conflicting demands from the stakeholders by adopting designs to conceal and shift attention away from the core activities that may be unacceptable to some of the key stakeholders. This is again by considering their contributions, costs and risks to the firms (Phillips et al. 2003) i.e. the credibility of the threats or source of the threats (Holland et al. 2013) as discussed in subsections 2.2.2 Stakeholder Theory. The weight of such threats may trigger responses from the affecting firms, and the process of winning back or ‘repairing’ (Suchman 1995) legitimacy starts again and it is in fact, circulatory. Acquiring legitimacy involves a continuous process of gaining, maintaining and preserving the reputation granted by the key stakeholders in order for firms to remain competitive.

In term of severe cases such as controversial claims of illegitimate actions like fraud, O’Donovan (2002: 345) stated that *“the greater the likelihood of adverse shift in the social perceptions of how an organisation is acting, the greater the desirability on the part of the organisation to attempt this shift in social perceptions.”* However, in order to be successful in deviating the public’s perceptions, it is vital for the companies to carefully assess the stakeholders as having necessary attributes to confer or withdraw legitimacy before responding to the threat in order to secure the legitimacy status (Holland et al. 2013). This is because Holland, Lindop, & Zainuddin (2013) found that companies places their concerns and give a different magnitude of responses to the legitimacy threats by particular stakeholders based on the potential risks and costs that they might suffer because of the threat itself.

In summary, legitimacy theory proposes a set of processes involved in gaining acceptance from the current social context towards the company’s affairs by giving a clue to the companies to make perceptions under their influence. Although legitimacy status might vary from company to company, the idea of possessing legitimacy is crucial for all established companies. Since social norms and values because of changes in the stakeholder's judgement and perception are always changing and evolving, the legitimacy process that is undergone should also be dynamic, given the need of companies to gain, maintain and repair (Elsbach & Sutton, 1992; Holland et al., 2013; Suchman, 1995) their legitimacy status.

2.2.2 **Stakeholder Theory**

Stakeholder theory is mainly concerned about stakeholder management, suggesting ways for companies to manage and balance their stakeholders' competing demands (Carroll, 1999; Van Der Laan, 2009) . Dillard & Murray (2013) defined stakeholder theory as a "*way of explaining why and with whom a company should engage, based on the notion that many people have a stake in the company, and that in order for the firm to effectively achieve its objectives, all must be considered"* (Dillard & Murray 2013: 19). Freeman & Mc Vea (2001) refer to *"stake"* as the perceived interest, effects or rights possessed by any group or individual in relation to the company's activities and objectives. Therefore, a stakeholder is any group or individual who is perceived to be affected by or who could affect the achievement of the company's objectives.

In addition, stakeholder theory could be linked to Sacconi (1999) and Avi-Yonah (2006) where they had discussed that firms act as the nexus of contract based on contractarian theory. As a nexus of contract, firms are perceived of not really exist because they are just viewed as a point for connection between stakeholders such as shareholders, bondholders, employees, customers and others including government and the public (Avi-Yonah 2006). This is similar to the aggregate theory and stakeholder theory which view the corporations as an aggregate of its members or stakeholders (Avi-Yonah 2004).

Stakeholder theory helps managers by providing a flexible framework to make business decisions and to develop the business's strategy by considering all of the stakeholders of the company (O'Donovan , 2002; Freeman & Mc Vea, 2001). This would mean that the company's decisions to execute any activities are based on the stakeholders' point of interest. As executed through CSR, this theory can be used to explain the orientation of the company's activities based on the stakeholders' degree of influence on the company. It could also be used to suggest the perceived course of actions that should be taken by the companies based on the influential power of the relevant stakeholders.

Phillips et al. (2003) acknowledged that the stakeholders' influential power towards the companies is either because of the instrumental relationship with the companies such as the percentage of shareholdings held by the shareholders or by way of normatively legitimate stakeholders. The ability of the stakeholder to assist or hinder the achievement of the companies could be assessed based on their contributions, costs and risks, so then it could be treated fairly (Phillips et al., 2003). For example, firms can choose their most important stakeholders based on the potential of the stakeholders to contribute financially as capital for the firm or contribute risks that may jeopardise the firm's survival (Blowfield & Murray 2008).

The approach of evaluating the stakeholders' importance provided by Phillips et al. (2003) has a similarity with the "stakeholder salience" concept introduced by Agle, Mitchell, & Sonnenfeld (1999). *"Stakeholder salience*" is a mechanism suggesting to companies on how to prioritise the particular groups of stakeholders who have a prominent influence over the company's legitimate actions and achievements based on managerial perceptions. Alternatively, O'Donovan (2002) referred to such groups of stakeholders that hold prominent influence as being the *"conferring public"*. O'Donovan (2002) added that the weight of the influences held by respective stakeholders could be measured their legitimacy threat that they have on the companies. The magnitude of concern and responses by the firms to the stakeholders hence may follow the weight of such threats (Holland, Lindop & Zainuddin 2013).

Agle et al. (1999) also added specification to measure stakeholders' influences by ranking them into three levels; power, legitimacy (i.e. social contract and rights) and urgency. They elaborated that power refers to the stakeholders' ability to directly influence the company's policies and actions. Legitimacy refers to the stakeholders' right to claim the companies based social contract, whereas urgency refers to the degree to which the stakeholders' claims require immediate action and when a delay in paying attention is unacceptable. Therefore, since stakeholders hold a certain weight in influencing the company's continuation, management are expected to identify the stakeholders' influential power on the companies in order for them to demonstrate the best actions that bring about the best implications to all parties involved. As mentioned by Phillips et al. (2003), the stakeholder approach through fair treatment concept should not undermine other theories such as shareholder-centric theory which drives firms to focus on shareholders' needs. The fair treatment concept would still benefit the shareholders with economic benefits based on their contributions in term of financial capital while still considering the merits of other stakeholders.

Though firms consider the stakeholders' importance is evaluated based on their perceived contributions, costs and risks as main argument in stakeholder theory, Phillips et al. (2003) emphasised that morals and values are explicitly addressed as being a central feature or pre conditioned in the way companies treat their stakeholders. Phillips et al. (2003) found many studies which have acknowledged stakeholder theory as being a theory that provides core moral justifications to normative discussions to other branch theories such as the common good, feminist ethics, risks, property rights, and principle of stakeholder fairness, risks and the doctrine of fair contracts.

These findings indicate that stakeholder theory consists of two vital characteristics in its discussion; moral values and the stakeholders' influential power as perceived by management core justification for the firms' actions.

Despite the good prepositions supplied by stakeholder theory towards the company's orientations Donaldson, Preston, & Preston (1995) argued that managers might exploit the stakeholder approach to cover up their self-serving behaviours in order to accomplish their own personal goals i.e. remuneration, promotion and other managerial benefits. For example, managers may back up their actions by putting the theme "to fulfil stakeholders expectations" as the excuse to rationalise their self-serving behaviour. Phillips et al., (2003) contended that the justifications rendered by managers in attempt to take advantage of stakeholder theory might not be viable, and that the shareholders and other stakeholders who are against the managers' conduct may question such actions and request proper affirmation. For example, to minimise the doubts of any personal motives, managers have to communicate to the stakeholders about their accountability - i.e. by reporting or using representatives to explain on the rationale of the decision made and how it accommodates the conflicting interests among stakeholders - in order to survive in the long run (Roberts 1992). Phillips et al (2003) also claimed that the issue of self-serving behaviour had also arisen in the debate of agency theory, thus stakeholder theory cannot add more. Therefore, it could be concluded that this theory works with the assumption that all members in a company share similar beliefs, aims and objectives. Such an assumption needs to be tested with various instruments in order to examine the extent that the theory is applied.

In summary, the key to stakeholder theory lies in the ability of management to make judgements over the stake and influence of the stakeholders and to warrant it with their moral and ethical values. By having reasonable perceptions plus moral justifications, companies are able to drive their activities to suit the stakeholders' demands and interests and simultaneously to sustain the companies' achievements.

2.2.3 **Agency Theory and Value Maximisation Theory**

Unlike organisational legitimacy and stakeholder theories discussed previously, which are broad and general in discussing all of the stakeholders' relationships with the companies, agency theory limits the parameters of stakeholders' competing demands by emphasising on the agency-principal relationship. The underlying assumption of agency theory focuses only on parties that contribute to the capital of the firms as being the parties who have financial claims or a direct stake in the firms affairs, namely, shareholders and debt holders (Jensen & Meckling 1976). With that assumption, Jensen & Meckling (1976) had defined the agency relationship as *"A contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some* *service on their behalf which involves delegating some decision making authority to the agent*" *(Jensen & Meckling 1976: 308)*. Empirically, the structure of a company fits this definition where shareholders could act as the principle and the companies' management is an agent in this mandate (contractual agreement) given by the shareholders.

This view is parallel with profit maximisation theory which emphasised that firms may have only one solid or major objective namely "*value seeking purpose"* and this is also affirmed by Milton Friedman in 1970 as cited by Jensen & Meckling (1976), Avi-Yonah (2004) and Jensen (2010) that *"the social responsibility of business is to increase profits."* Agency-principle relationship requires firms' management as agent to fulfil shareholders' demand which is to maximise returns of their investment. And this demand i.e. maximising profits would be firms' major agenda or single objective functions to be achieved by the firms. As contended by Jensen (2010) that firms' behaviour shall be purposely determined in which directions they are going to follow, where firms should hold to a single objective functions i.e. value seeking purpose. By setting a clear objective i.e. value maximisation or value-seeking behaviour, it is easier for the managers to make economic decisions for the company (Jensen, 2010). These views are defended with two fundamental assumptions which are firms' management are deploying shareholders' money and firms should work directly to benefit the shareholders (Avi-Yonah 2004).

Jensen (2002, 2010) claimed that other stakeholders would not be left out if firms are putting solid focus on maximising profits and value of the firms as firms' value maximisation would indirectly safeguard the needs of other stakeholders. Jensen 2010 had quoted that *"total firm value maximisation makes society better off"* and the author elaborated that society would be better off because firms may provide quality products and services to customers to ensure create loyal buyers, ensure health and safety of employees to enhance productions and pay fair taxes to the government for public benefits.

This claim of common agency theory is supported by Mallard (2015) through simple theoretical game where all principal (shareholders and stakeholders) are pulling agent (firms' management) to follow their demands. If the compensation of the agents is determined by the utility derived for the principals, agent will fulfil the demand of principal who offers the highest welfare for them. This is the case where the managers are fond to focus on shareholders' needs as their welfare depends to it and this occasion creates equilibrium or win-win situations.

However, if other principal (other stakeholders) are offering higher pay off or higher risks which it may reduce the benefits as a result of fulfilling shareholders' demand, firms' management may choose the optimal way in order safeguard the benefits received from fulfilling shareholders' demands (Mallard 2015). Thus, if firms' management still hold on the self-utility maximisations, the physical financial outcome will still become the aim and indirectly serve shareholders who are aggressive in maximising utility.

However, shareholders also have a right to sell the stake (shares or stocks) without the permission from other contractual parties on the disagreement of managers' actions and to avoid bearing higher agency costs (Jensen & Meckling, 1976). By selling their stake in a company, such shareholders have disconnected the relationship with the company which is defined by Schon (2004); a corporation is an artificial construct by law (*legal fictions)* which function as a *nexus* (centre) for a set of relationships.

Compared to stakeholder theory as discussed previously , which widely elaborates on fulfilling multiple objectives, Jensen (2010) argued that companies need to set up the primary purpose of their existence. He emphasised on the importance of setting value maximisation as the main business agenda. Jensen (2010) contended that a company should have one main objective; to stay on top regarding competitive advantages and to survive. By setting a clear objective, i.e. value maximisation or value-seeking behaviour, it is easier for the managers to make economic decisions for the company (Jensen 2010).

2.3 Tax Planning

2.3.1 **Definition of tax planning**

Tax is defined as "*a compulsory levy, imposed by the government or other tax raising body, on income, expenditure or capital assets, for which the taxpayer receive nothing specific in return.*" (Lymer and Oats, 2011: 3). Tax payments and other revenue collections are then redistributed or allocated for use in relation to social welfare, to finance public projects or to fund any activities introduced by the government (Lymer & Oats, 2011; Scholes et al., 1992).

On the other hand, tax planning[6] is broadly defined as the reduction of explicit taxes which does not involve tax evasion which by definition is illegal (Hanlon & Heitzman, 2010). It can also be described as any firm's activities with the aim of obtaining a tax benefit (Abdul Wahab & Holland, 2012). Scholes et al.(1992) clarified that effective tax planning is not simply a tax minimisation strategy, but that it is an implementation of the decision to maximise after-tax returns. Thus, tax planning shall be distinguished from tax minimisation strategy because generally, tax planning activities have a two folds- increase in relation to tax savings and maximising returns. In tax minimisation strategy, for example, a company may simply choose not to venture into profitable activities in order to minimise tax, but this approach will not maximise the after-tax returns at the bottom line (Scholes et al., 1992). Thus, effective tax planning would be to enable companies to enjoy not only high tax savings which lead to low tax liabilities, but also the increase of the net of tax returns.

Some studies (Alm 2014; Lanis & Richardson 2012; Huseynov & Klamm 2012) and Her Majesty's Revenue and Customs (HMRC) have distinguished tax planning into two

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[6] The term tax planning and tax avoidance is used interchangeably in Hanlon & Hietzman (2010) to reflect its broad definition.

different elements; tax planning and tax avoidance[7]. Tax avoidance has been defined as tax planning activities that comply with the letter of the law, but not the intention of the law. This distinct definition shows that tax planning activities consist of elements of being acceptable and unacceptable especially by the tax authorities. However, in a real business situation, it is difficult to distinguish the specific type based on the intention of tax planning as both have complied with the necessary laws and regulations.

Although having been clearly defined theoretically, both activities are anticipated to maximise tax savings and after tax returns, which serve as the main objective of the company; value maximisation (Jensen & Meckling 1976; Jensen 2010).

2.3.2 Motivations, Benefits and Risks of tax planning

Aggressive tax avoidance activities are advocated by several perspectives. Inconsistent perspectives over tax avoidance activities make tax avoidance issues to become more complex (Demirbag et al., 2013; G. R. Dowling, 2014). On top of that, companies and tax authorities have different purposes when it comes to conducting their activities. Tax authorities are concerned with the fulfilment of tax codes, while companies aim to maximise profits.

There are fundamentally different views in relation to the motivations of firms pursuing tax planning activities. These differences in views arisen at a very fundamental issue such as fundamental purpose of business existence (Avi-Yonah 2004; Avi-Yonah 2009) and stretched to the firms' managerial behaviour. Agency theory and profit maximisation theory as discussed in section 2.2.3 also serve explanations on the motivation of firms to pursue aggressive tax planning activities. These different views contribute to the debates on how companies view tax planning activities on the account

[7] Tax avoidance is mentioned as "aggressive tax planning" in Alm (2014), Huseynov & Klamm (2012) Lanis & Richardson (2012) and "unacceptable tax planning" in Holland et al. (2013).

that it may benefit the companies by way of profit, and at the same time, it increases the risks for the companies.

From the agency theory perspective (Jensen & Meckling, 1976), aggressive tax planning behaviour is asssumed to exhibit individual self-interest behaviour (Alm, 2014) of the shareholders and managers based on utility maximising motives. From this perspective, tax would be perceived as costs or expenses that should be minimised in order to maximise profits (Dowling, 2014). Effective costs deductions would generate more returns and subsequently increase the market value of the companies as a result of market confident.

Frank et al. (2009) in their study of investigating the relationship of aggressive financial and tax reporting in U.S quoted firms from year 1991 to 2005, found that market react positively on the aggressive financial and tax reporting. This shows market are inpounded to the tax reporting aggressiveness in high earning management companies at least for sometimes before detail analyses have been performed on the report. Aggressive tax planning practices were also found to increase in the the market value of the corporation (Desai & Dharmapala, 2007). Desai & Dharmapala (2007) found that firms exhibit an increase in market value though engage in high level of tax avoidance activities although in the existence of strong governance[8]. Their findings shows that a solid objective functions such as utility maximisation has an ability to influence firms'management to engage in aggressive tax planning behaviour regardless of good corporate governance. Their actions might be driven by the influence of shareholders who react positively on any activities that maximise their wealth, including aggressive tax planning. Therefore, managerial actions were scrutinised to follow the needs of shareholders and corporate governance has acted in accordance of what the principal's (shareholders') demands (Jensen & Meckling, 1976).

[8] As discussed in subsection 2.5 Corporate governance, some of the characteristics of strong corporate governance are the existence of internal and external monitoring; such as the low compensation strategy, high transparency and accountability; and number of external Board of Director.

Unfortunately, aggressive tax planning activities involve risks and costs. Firms may consider costs and benefits before undertaking any business activities. This is also in line with strategic organisational legitimacy approach as discussed by Suchman (1995) where firms may compute the risks and rewards of their actions based on the strength of most influencing stakeholders. As claimed by Mallard (2015) in common agency model, all principal (shareholders and stakeholders) are pulling agent (firms' management) to follow their demands. In rational costs benefits analysis, agent will fulfil the demand of the principal who offers the highest welfare for them if agent's welfare depends on principal's utility. This demand and supply will create equilibrium between agent and principal. However if the tax authority as another principal is offering higher risks, the managers may choose the optimal way in order safeguard the benefits received from fulfilling shareholders' demands (Mallard 2015). For instances, if shareholders have the ability to financially scrutinise firms' activities, firms might adhere to the demand of shareholders rather than other stakeholders to remain legitimate.

Similar to economic point of view, business may pursue activities which their benefits are more than costs although such activities might fall under economic fraud or crime (Becker 1974) which will consists high risks. This is also applied to business activities such as tax planning. Tax planning indeed is a legal move, but these activities if undertaken aggressively, there are high possibilities that they may slipped into tax evasion due to its limited economic justifications (Alm 2014). Scholars have defined and remarked aggressive tax planning to carry both elements of legal tax avoidance and illegal tax evasion because of lack of economic justifications and the exploitation of tax laws. In addition, aggressive tax avoidance has always been referred as *"abuse"* in John Tiley's speech (see O'Connell (2014)'s comments). Therefore, such activities are riskier for the companies if in case, the companies are being chosen to be audited and contested by tax authorities, exposing the chances to be punished and imposed tax penalty. Thus, companies have to bear costs of dealing with the tax audit and the risk of tax transaction being challenged as illegal and subsequently liable to the penalty, might in turn jeopardise companies reputation.

These activities are also considered as one of the "crime" as defined by Becker (1974) that "crime" covers not only phsical offences but include all violations againsts properties and persons, and againts minority and majority. Thus, aggressive tax planning also might become as white collar crimes if it falls under tax evasion categories since it may indirectly violate the rights of other stakeholders to benefit from the tax collected by the government (Becker, 1974). As such, aggressive tax planning activities do not only incurr costs to the firms if found convicted, but also add further costs to the government (Becker, 1974). Becker (1974) in the discussions of criminal's rational of costs and benefits analyses eleborated that government will suffer double costs in the effort to combat crime; first, sum of damages of the crime and second, costs of apprehension and convictions or so called *"economic costs of crimes".* (Becker 1974: p3).

However, as generally acknowledged in the competitive business environment, high risk would bring high returns. Therefore, in order to obtain higher distributable profits, tax would also be perceived as costs or expenses that should be minimised in order to maximise profits although these activities might carry risks to the firms if found convicted (Dowling, 2014). As government is formulating the optimal way of minimising loss as a result of social crime, firms are perceived to also measure the expected benefits versus expected costs of being caught because of aggressive tax planning activities. As being detailed out by Becker (1974) the optimal amount of enforment consists of lists of cost i.e. sum of damages of the crime, costs of catching and convicting offenders and responses of offenders to changes in enforcement. And the numbers of procedures started from apprehensions level, in court proceedings and form of punishments sounds rigid and expensive to the government (Becker 1974). Becker (1974) emphasised that in order for the government to achieve the optimal decisions are to minimise social loss to the society the punishments shall be excess of the costs of the offences. If the punishments and the costs of offences are at equilibrium, the damages caused by the offences are considered low, then, the offenders would be at the benefits.

In relation to aggressive tax planning, firm would find the risks and costs dealt by them are lower than the benefits they harvest if the costs involved in determining the offenses at government side are high . This is particularly true as effectiveness of detecting white collar crime are not greater as physical crime such as burglary or rape (Becker 1974). Similar to aggressive tax planning activities, because of its nature, costs of determining the offences relating to these activities may hike, as government has to really work to find evidence of manipulations in order to put this activities into convictions. Thus high costs at the government side, lower risks and costs to the firms, firms will probably pursue aggressive tax planning activities.

However, Becker (1974) claimed that crimininal behaviour do not only occur after rational costs and benefits analyses but also as a result of psychological inadequacies or usual economic of choice of at personal or managerial level.

This personal motivations can be explained by agent and principal relationship where managers would undertake more aggressive tax planning activities to increase the wealth of shareholders by increasing the after tax returns (increasing divisible income) and tax savings (the cash flow). Monitoring costs incurred by the shareholders such as compensations and bonus served as incentives for the managers if such incentives could fulfill their self-interest in maximising personal utility (Mallard 2015). Bonding costs incurred by the shareholders such as external audit fee would serve as constraint in pursuing aggressive tax planning activities, since aggressive tax planning activities might welcome threats from the tax authorities. Thus, managers might continue to engage in aggressive tax planning activities to achieve the goal congruent with shareholders or due to perceived incentives available. Agency costs however would minimise the information asymmetry between shareholders and managers, in cases where managers pursue activities deviated from shareholders' objectives.

In agency theory perspective (Jensen & Meckling, 1976), aggressive tax planning behaviour is asssumed to exhibit individual self-interest behaviour (Alm, 2014) of the shareholders and managers based on utility maximising motives. This self-interest behaviour could result from psychological bias or inadequate (Becker 1974) and emotions for example feeling excited and thrill of the ability to commit crime and escape it (Ariely 2010). Ariely (2010) connect this psychological factor with social crime or blue collar crime because this type of crime is difficult to detect, involves indirectly many people and could be supported by thick regulations which too detail legal and illegal activities. This type of crime according to Ariely (2008, 2010) provides self excitement when the doers could getting away with it without the high risks of being caught. This type of crime suits with aggressive tax planning nature, where it is difficult to be detected as it is loopholes in the thick tax law. The government's collection of tax will be lesser and this will indirectly affects the society who can benefit from tax distibutions.

Further, as aggressive tax planning activities also pursue as a result of optimistic bias which in the long run managers will be in the position in which they are compelled to intentionally misstate earnings (Schrand and Zechman 2012). Schrand and Zechman (2012) found that the managers became optimisly bias when they posses behavioral traits such as overconfidence and make an initial misstatement intentionally or unintentionally. They claimed that in the fraud cases, initial mistatement entails a greater intent to deceive for personal gain relatives to the misreporting cases. As aggressive tax planning activities also involves manipulations and misreportings (Alm 2014) to take advantage of tax loopholes (Scholes et al. 1992), there is a possibility of overconfidence managers to take part in these activities for personal gain. If the aggressive tax planning activities succeeded, the after tax profit increase, managers could get benefit of increased compensation as a result of their achievement. This would encourage managers to engage more in aggressive tax planning activities.

Besides exposing the companies into the tax authority counteractions, the risk of engaging aggressive tax planning might also be harmful to the companies itself. Bon Kim et al. (2011) found that aggressive tax planning is positively associated with the risk of shocked drop in share price. The share price might drop as a result of losing confident by the shareholders due to the risks taken by the companies in pursuing tax planning strategies. They elaborated that tax planning activities such as compensation contracts help companies in giving excuses on the operating loss suffered by a company. This act would create market confidence resulting of overvaluation of shares.

Up to a certain point, the accumulated poor performance concealed will be suddenly leaked to the stock market, resulting the share price to drop drastically. However, Bon Kim et al. (2011) claimed that the risk of shocked drop of shareholders' confident is weakened if the firms have strong internal monitoring (high performance of corporate social responsibility, high institutional ownership and diverse Boards) and external monitoring mechanisms (high analyst coverage and greater takeover threat from corporate control markets). Strong internal and external monitoring mechanisms might reflect that although the companies are engaging in aggressive tax planning, companies are aware of the risks relating to that activities in the future.

Abdul Wahab & Holland (2012) also found that companies with high tax planning activities exhibits a decrease in firm value. However, they did not found that internal monitoring mechanism such as corporate governance could moderate the shareholders' valuations upon the tax planning activities. They suspected ineffective functions in corporate governance attributes might exist due to context differences if compared to Desai & Dharmapala (2007). Desai & Dharmapala (2007) found that corporate governance may moderate the shareholders' valuation as a result of tax planning activities. Their finding imply that shareholders may oppose any actions that may morally deteriorate the companies' reputations. Abdul Wahab & Holland (2012) claimed that the variation of corporate governance function in moderating negative approval from shareholders towards firms' tax planning activities may depend on the differences in tax related institutional and policy between countries.

Shareholders may reflect their disapproval by selling off their investments in the companies since internal monitoring fails to sustain shareholder confidence over the firms' risky decision like tax planning. In extreme cases, there are evidences that aggressive tax planning schemes might score against the legitimacy of firms, hence ripping the continuity of their businesses. This is particularly true as claimed by Sikka (2010) that aggressive tax planning was one of the reasons big companies like Enron, Parmalat and World Com collapsed. Sikka (2010) revealed that big corporations are willing to forgo a large tax management fees to avoid tax e.g. Enron paid USD8 million to generate tax benefits of USD2 billion. The companies' inclination to involve in tax planning because of eagerness to generate tax savings might endanger themselves to legitimacy threats by influential stakeholders.

Besides being harmful to the companies at certain points of pursuing aggressive tax planning, Christensen & Murphy (2004) pointed out that the trend of aggressive tax planning engagements will also harm the individual taxpayers as individuals taxpayers have to pay more share of tax for the government to provide the social welfare to the society. They claimed that it is unfair for the corporations of being profitable citizenship at very low cost i.e. paying low tax.

In conclusion, despites different motives of aggressive tax planning behaviour, aggressive tax planning activities have potential of dragging companies into bad implications such as risks of being scrutiny by tax authority, risk of being disapproved by shareholders and harmful to other stakeholders i.e. society.

2.3.3 **Summary of tax planning**

Tax planning activities undertaken by companies shall be distinguished in terms of passive and aggressive nature of the activities. As has been clearly defined in the definition section, aggressive tax planning or tax avoidance becomes the central discussion because by definition these activities though legal, it is not intended by the law.

However, inconsistent views upon aggressive tax planning activities have created more complicated issues of whether aggressive tax planning shall be seen as abusive or just normal business activities. The motives of aggressive tax planning activities though could be explained by the agency-principal relationship (Jensen & Meckling, 1976) and individual self-interest (Alm, 2014), these activities are not in line with the tax planning approaches introduced by (Scholes et al., 1992). These tax avoidance activities might bring bad implications to other stakeholders in multilateral approach and increase implicit costs and risks of doing businesses.

Empirically, previous studies had found positive and negative implications of aggressive tax planning financially and non-financially. Aggressive tax planning is found to increase market value and also otherwise. Besides, several studies had found that aggressive tax planning might harm not only the companies but also other stakeholders such as individual taxpayers.

Hanlon and Heitzman (2010) also poised questions on the reason of corporations still engaging in tax avoidance behaviour though such activities may embark bad implications to companies and stakeholders. They have reckoned that apart from external scrutiny, internal qualities and belief within the companies might have implication on aggressive tax planning behaviour. They also suggested that the tax avoidance phenomena are still lacking in research and underexplored in term of how do users (shareholders, creditors, consumers and other stakeholders may view the tax avoidance behaviour). Further, Dowling (2014) also called for more empirical investigations to be carried out to examine the fundamental linkage between aggressive tax planning and internal qualities or belief such as CSR.

2.4 Corporate Social Responsibility (CSR)

Research in CSR is exaggerating very fast in year 2000 onwards ((Lu & Liu, 2014; Dhaliwal et al., 2011) because it started to attract scholars from multidisciplinary areas such as environmental studies, organisational behaviour, marketing, and accounting, and other disciplines (Aguinis & Glavas, 2012; Lu & Liu, 2014; McWilliams et al., 2006; Moser & Martin, 2012). Researchers are interested in examining the integration of CSR in business activities at all level; individual, organisational and institutional (Aguinis & Glavas, 2012). The intervention and interaction between stakeholders as well as moral and ethics values inculcated as the central focus of CSR are studied in all level of business activities in investigating the impact of CSR to business model

(Aguinis & Glavas, 2012). This shows that CSR is not only rhetoric and normative discussions only, but its existence is believed to have certain impact on business activities and achievement.

2.4.1 **Definition and concept**

Corporate social responsibility (CSR) is defined as business activities which go beyond adhering with the law and regulations in relation to serving people, communities, society and the environment (Cai et al. 2012; McWilliams et al. 2006; Siegel & Vitaliano 2007). From the significant amount of research works done concerning CSR (Freeman et al., 2010; Lu & Liu, 2014), CSR could be understood as being the broad concept of business activities where it has been developed based on stakeholders' mutual interests and the companies' perceptions of the stakeholders' importance. CSR is always seen by scholars as advocating balanced responsibilities towards stakeholders and upholding moral and ethics values as its central discussion (Carroll, 1979; McWilliams & Siegel, 2001; Aguinis, 2011). In simple definition, CSR is about sacrificing profits in the social interest (Benabou and Tirole 2003; 2010).

Specifically, Sacconi (2006; 2008) had redefined CSR to be seen as a "*model of extended corporate governance whereby those who run a firm (entrepreneurs, directors and managers) have responsibilities that range from fulfilment of their fiduciary duties towards the owners to fulfilment of analogous fiduciary duties towards all the firm's stakeholders."* (Sacconi 2006: p262)

It is worth highlighting that the concept of CSR was initially a function of another school of thought, stakeholder theory (Freeman et al. 2010; Donaldson et al. 1995). Sacconi (2006) for instance had redefined the CSR as extended corporate governance and to replace the mono-stakeholder system into multi-stakeholder system. Therefore the fiduciary duties of firms would cover the *"the stakeholder in strict sense"* as mentioned previously and external stakeholder who indirectly experienced the external effects of firms' activities (Sacconi 2006).

As extended model of stakeholder theory, this model seems to act as agency-principal relationship as discussed in agency theory (Jensen and Meckling 1976) where agent (firm's management) acts to fulfil the demand of principal (shareholders). However, in this model, Sacconi (2006) had redirected the fiduciary duties of agent to exercise authority for the good of other stakeholders not only shareholders. Under this mode, principal is redefined as not only shareholders who have made financial capital to the firm, but also include those who have made specific investments (also known as *"stakeholder in the strict sense* (Sacconi 2006: p263) in the firm such as human capital, social capital or trust, physical and environment capital and etc. (Sacconi 2006). Therefore major stakeholders of the firm have been stretched to cover not only shareholders but wider subjects. The concept of CSR then is claimed to redirect the concept of fiduciary duty from mono stakeholder settings to multi-stakeholder setting (Sacconi, 2006).

Therefore, in CSR, the outcome would not be focused on one financial outcome as exhibited in value maximisation theory (Jensen 2001) and it opted out from single objective functions (Jensen 2010) to multiple objective functions. Thus in CSR, the basis of relationship between stakeholders and the firm vital for firms to fulfil their fiduciary duties. As mentioned in stakeholder theory, ethics and morals are set as pre-conditions before understanding commitments to multiple stakeholders.

From the definitions and model discussed above, it becomes clearer that CSR is translated to business activities from the instrumental approach of stakeholder theory (Donaldson, Preston, & Preston 1995) and the theory had received tremendous refinement year by year (Freeman et al., 2010; Lu & Liu, 2014), so that it is able reflect the fiduciary duties to multiple stakeholder in multi-stakeholder system (Sacconi 2006).

In practice, CSR is reported in multiple dimensions which business activities are labelled according to stakeholders' demands (Carroll, 1999; Carroll, 1979; Carroll, 1991; Schwartz & Carroll, 2003). CSR dimensions such as economic, environment, legal and ethical have been familiarly reported as CSR activities by organisations, particularly larger and more successful companies (Schwartz & Carroll 2003a).

2.4.2 Motivations of CSR

According to Benabou and Tirole (2010), there are three motivations of CSR, first, the adoption of a more long run perspective, second the delegated exercise of philanthropy on behalf of the stakeholder and third, insider-initiated corporate philanthropy. Keung Hoi et al. (2013) also views CSR in two fold as either as shared belief or as strategies for survival of the firms. It is parallel to what had been claimed by Gariga and Mele (2012) that each CSR theory presents for dimensions related to profits, political performance, social demands and ethical values. It should be noted that based on stakeholder theory and CSR extended model of corporate governance (Sacconi 2006), the ethical; or insider-initiated corporate philanthropy; shared belief serve as main justification of firms’ CSR motives. Benabou and Tirole (2003; 2010) mentioned this ethical motivation as intrinsic altruistic CSR. This normative or altruistic approach, acknowledges the moral and philosophical guidelines for companies to conduct their business within (Donaldson et al., 1995; Lantos, 2002; Avi-Yonah, 2006). Altruistic CSR sets forth the moral and ethics values as being the central justification of CSR practice (Phillips, Freeman & Wicks, 2003). The ethical values embedded in CSR are expected to balance ‘capitalism and ethics’ (Freeman et al. 2010: 241). Consequently it is anticipated to refrain from perceived irresponsible actions, for example, providing relevant but misleading information to stakeholders which consequently affects the stakeholders’ perception of the companies (Kim et al. (2012).

CSR with this ethical motive could shape corporate conduct into being high in morale and able to curb irresponsible activities and to counter act with the agent's self-interest. However, how companies built in corporate morale as corporate culture yet corporate morale is difficult to measure on all of companies' personnel (Demirbag et al. (2012).

Consequently, the ethics and morals principle started to spread over to firms due to abuse of authority problem as discussed in rational economic theory, agency theory and value maximisation theory (Sacconi 1999). Thus, CSR as manifestated code of ethics for is belief to act as constraints to curb irresponsible conduct because of breach in authority by managers and influential stakeholders. Code of ethics is also believed as key element and act as a constitutional chart that makes social contracts visible (Sacconi 1999). Thus by establishing the code of ethics and translated it into CSR concept, CSR is seen as constitutional chart and pre-understanding of mutual commitments between each party that all parties will comply to the code as claimed by Long et al. (2008) that codes of ethics will promote trust in the organisation. In this view, CSR will be a *"self-enforcing"* system of norms (Sacconi 1999: p 193) which it will shape ethical corporate conducts to carry their responsibilities.

In conjunction with the phrase *"going beyond"* as emphasised by McWilliams & Siegel (2001) when defining CSR, companies that engage with CSR are expected to contribute more reliable financial information that represents the accountability of the companies towards their respective stakeholders (Kim et al., 2012).

Reliability, according to iGAAP (2011), is one of the qualitative attributes that makes financial information useful to the end-stage users or stakeholders. iGAAP (2011) noted that in order to achieve highly reliable information, the financial information should be faithfully represented. This is by giving priority to the substance over the form, neutrality, prudence and completeness. In summary, the information provided should consider the economic reality of the transactions and events to be reflected in the financial statements. Therefore, CSR is perceived to have attributes that facilitate companies to act faithfully and to report reliably, because it advocates the importance of the stakeholders and inculcates moral values in its concept.

The contribution of CSR in shaping the qualitative attributes of financial information has been presented in the study done by Kim et al. (2012). Kim et al. (2012) examined the association of CSR and the earning quality of the US quoted companies. The study found that the companies rated as being socially responsible are less likely to be involved in earnings management, are less likely to report manipulations and consequently are less likely to be subjected to Security Exchange (SEC) investigations. Managing earnings and manipulating the company's real activities are regarded as being irresponsible actions because the companies could deceive their stakeholders, i.e. investors and potential investors, when it comes to making their investment decisions (Kim et al., 2012). Investors and other stakeholders are deceived by the reported figures and activities because it seems like the information reported has been complied with the accounting GAAP and other regulations (complying with the letter of the law), yet it has actually manipulated. If not carefully analysed, the earnings and activities reported by the companies might seem relevant, but are potentially misleading. The results found by Kim et al. (2012) warrant that companies that integrate and really practise CSR are involved in less manipulations and provide more reliable information to their stakeholders, especially investors. Similar to Kim et al. (2014), they found that CSR could mitigate the stock price crash risks for companies even if they are under weak governance. This is due to the belief that companies that are operating in a strong CSR-oriented corporate culture show a lower tendency of hiding bad news, thus the transparency leads to a lower stock price crash risk (Kim et al., 2014).

Besides retaining trust from the existing shareholders, good CSR practices would go on to also attract potential shareholders and investments. Dhaliwal et al. (2011) found that companies with greater CSR performance, as disclosed in their CSR reports, are able to attract dedicated institutional investors and can raise their amount of capital. The financial status of the companies would also then improve since investors and other stakeholders perceive that companies practicing high CSR values have high moral and ethical values when it comes to performing business activities. Therefore, the companies could seek to obtain their stakeholder's confidence, especially investors and potential investors, so that their funds are truthfully managed (Dhaliwal et al., 2011).

While other motives of CSR could be categorised as carrying extrinsic motives (Benabou and Tirole 2003:2010) which according to Keung Hoi et al (2013), it is carried as strategic approach either to pursue for long run benefits such as customer loyalty or reputations, or to fulfil demands of major stakeholders such as maximising profits. CSR is often carried out as strategic approach in order to achieve specific economic objectives such as maximising the shareholders' outcomes (Crowson, 2009). As strategic approach, CSR is used as strategy for risk management, either preventive or reactive, as explained in the legitimacy theory. Strategic CSR is considered to be based on cost-benefits and cost-risk issues (Carroll & Shabana, 2010). For instance, as preventive strategy, companies might value the risk of any conducts based on stakeholders' influencing power before undertaking that activities. And as reactive strategy, due to its good rapports, CSR might also be viewed as reactive respond to irresponsible activities to repair firms' reputations Keung Hoi et al. (2013).

Parallel to the strategic approach as discussed in organisational legitimacy theory, Boesso & Kumar (2007) also added that CSR is also on the agenda for companies to maintain their legitimacy. This is achievable based on the previous studies had documented the ability of CSR reputations to improve several performance areas such as the investors' trusts, consumer loyalty and credit ratings. For example, in obtaining other stakeholders' acceptance such as borrowers or fund providers, Attig et al. (2013) found that good CSR performance can also improve the companies' credit ratings i.e. credit worthiness and consequently reduce financing costs. The credit worthiness of companies have been assessed in Attig et al.'s study (2013) by looking at the broad set of CSR-related activities such as the relationship of the companies with regulators and other stakeholders as well as how internal procedures, policies and practices can create or mitigate risk. Attig et al. (2013) claimed that companies with a superior CSR performance could reduce the anticipated risk of financial distress through a good relationship with stakeholders, which in turn increases the long-term sustainability as well as reducing the firms' probability of incurring costs due to irresponsible conducts. Lower business and financial risks increase the credibility of the companies in relation to debt repayments, thus creditors will allow lower financing costs. Lower financing costs such as lower interest expenses will subsequently enhance the firm's competitiveness and profits in the long run (Attig et al., 2013).

Even in the case of controversial business sectors (alcohol and tobacco), in which the products itself are scientifically harmful to the society and environment, the companies still have a high track record in CSR. However, CSR is found to significantly enhance their market value (Cai et al., 2012). This could be the case because, as claimed by Carroll & Shabana (2010), with the moral and ethics value embedded in CSR, CSR is perceived to reduce the costs and risks of the companies. For example, complying with the laws may result in the risk of being punished (by way of a penalty) as being low in the future.

Kim et al. (2014) also found that companies that exhibit a high CSR performance could mitigate the stock price crash risk through a weak governance condition. Their result showed that investors in weak governance companies perceive that the management in a strong CSR-oriented corporate culture show a lower tendency to conceal bad news, leading to lowering the risk of a stock price crash. Dhaliwal et al. (2011), in their study examining the relationship between the company's initiation of CSR stand-report and the higher costs of capital, found that companies are more likely to initiate a standalone CSR report if they realised that they are experiencing higher costs of capital. Their study focused on the companies which already had higher external ratings for CSR performance but still sacrificed extra costs to produce a stand-alone CSR report. This reflects that either the motive of CSR was for "window dressing" (Cai et al. 2012) or otherwise, the socially responsible images portrayed by the companies via CSR could contribute to achieving the certain company's objectives, and subsequently to help sustain the legitimacy status of the companies in question.

From other studies, there is evidence which reflects that the business ethics and values embedded in CSR would not only able to curb the company's bad behaviour but also be able to generate financial benefits such as mitigating the companies from having a stock price crash risk (Kim el al., 2014). Other benefits include attracting investors and reducing costs of capital (Dhaliwal et al. 2012); improving credit ratings (Attig et al. 2013); increases in stock price (Wang and Tuttle, 2014) and exaggerating sales by influencing the customers' purchasing decisions (Seop Kim et al. 2014). Wang and Tuttle (2014) elaborated that there is a 'halo effect' of CSR in which investors tend to accept the CSR disclosures as being accurate when they judge CSR performance, thus their confidence would be improved by a high profile of CSR being reflected by the companies. This is similar to the claim made by Seop Kim et al (2014) ,which was that customers as a group of stakeholders are altruistic, and a high CSR profile could influence their purchasing decision related to the company's product or service offered.

2.4.3 **Summary of CSR**

In summary, there are tangible and intangible benefits of undertaking CSR. If CSR is undertaken as a shared belief, and practised by the companies, it could build good corporate culture within the companies and improve relationship with the stakeholders, and subsequently achieve the outcomes expected such as profitability and loyalty. However, if CSR is taken as strategic tools to achieve certain outcomes, for example, to legitimise certain irresponsibility actions by diverting attentions of conferring parties, companies would miss the quality attributes of CSR as it were practised. In addition, companies would face high risks of stakeholders' adverse actions if the motives of CSR as a legitimacy tool become known to the stakeholders i.e. stock price crash risk, decrease in market value, employees turn out and etc.

The implications of CSR either practised or undertaken as a strategic tool also might be mitigated or influenced by other factors such as internal and external monitoring controls i.e. corporate governance and external regulatory forces. The existence of these factors together with CSR might bring different implications to the companies' orientations and activities.

2.5 Corporate governance

2.5.1 **Introduction**

Jensen & Meckling (1976) elaborate that the problem could arise in this relationship as a result of the qualities (resourceful and evaluative) and utility maximising behaviour possessed by both principal and agent. Agent (firms' management) would also have their own self- interest while pursuing companies' goal. The divergence between the interest of the owners (shareholders) and agent (companies' management) creates agency problems, where managers might take actions which will not maximise the shareholders' wealth. Therefore, shareholders have to strengthen the monitoring and control systems in order to ensure that the managers carry out their duty in parallel with shareholders' goal, subsequently giving rise to 'agency costs' borne by the shareholders. Agency costs consist of *monitoring costs* such as incentives available to the managers, *bonding costs* such as costs incurred for the appointment of external auditor in assuring the transparency and reliability of management affairs and *residual loss* which consider the reduction of wealth forgone due to goals divergence (Jensen & Meckling, 1976).

In practice, the monitoring and control system to reduce the information asymmetry is known as corporate governance. Corporate governance is defined as *'the system by which the companies are directed or controlled' (Cadbury 2000: 8).* Jamali et al. (2008), in their study determining the relationship of CSR and corporate governance, subsequently defined governance as *'how power exerted and decisions reached'* (Jamali et al., 2008: 444). The controls that corporate governance has over resource allocation and determining shareholder wealth makes corporate governance an important factor in shaping the company's orientations (Minnick & Noga, 2010).

In agency theory, good corporate governance also plays an important role in improving the agency-principal relationship (Ntim & Soobaroyen, 2013). Agency theory entails the importance of corporate governance in improving the principal-agency relationship (Jensen & Meckling 1976) in order to reduce agency costs. According to Aguilera, Williams, Conley & Rupp (2006), corporate governance practices include the treatment of shareholders as the priority, equity financing, diverse share ownership, active capital markets as the monitoring mechanism of corporate accountability as well as a flexible labour market. Because of corporate governance functions' emphasis on the interaction between the shareholders and the market, it is seen of as a connection within the company and between the company and its environment (Aguilera et al. 2006; Cadbury 2000; Jamali et al. 2008).

This is in line with how corporate governance is practised in the UK. Corporate governance system follows the Combined Code on Corporate Governance (2003) as suggested by the Cadbury Committee in 1992 (Cadbury 2000). Corporate governance focuses on the role of Board of Directors (subsequently referred as ("The Board") in the companies which operate within a framework set by laws and regulations, by shareholders in general meeting as well as by public opinion (Cadbury, 2000). Therefore, corporate governance roles are bound within the companies' framework and good practices.

Since the implementation of the Combined Code on Corporate Governance, Aguilera et al. (2006) found out some of the common corporate governance characteristics in companies listed on the London Stock Exchange (LSE). They found that in companies quoted on the LSE, institutional investors dominate the ownership of equity and they follow a dual leadership style (separating the roles of Chief Executive Officer (CEO) and the Chairman of the Board of Directors (BOD)). Aguilera et al. (2006) claimed that different compositions of institutional investors offer different pressures on the company and its stakeholders due to their variations in performance strategies.

Empirically, Desai & Dharmapala (2007) found that companies with the existence of strong governance (i.e., strong governance may act as intermediaries between shareholders and managers could minimise imformation assymetry and increase control over the managers' behaviour to congruently fit shareholders' wealth maximising goals. In addition, Bon Kim et al. (2011) claimed that the risk of a shocked drop in the shareholders' confidence is weakened if firms have strong internal monitoring (high performance of corporate social responsibility, high institutional ownership and diverse boards) and external monitoring mechanisms (high analyst coverage and a greater takeover threat from corporate control markets). Strong internal and external monitoring mechanisms might reflect that although the companies are engaging in aggressive tax planning, the companies are also aware of the risks relating to that activity in the future.

Moore (2012) further reviewed that institutional ownership could strengthen the monitoring systems in place. This practice could enlighten the stakeholder relationship while maximising the value of the companies (Jensen, 2010). This attribute could be linked to the CSR practices of the companies since CSR promotes the idea of the stakeholder relationship as discovered by Jamali et al. (2008), in that the companies' management mostly perceives corporate governance as being the basic building block of CSR. However, the effectiveness of corporate governance attributes is to ensure that the internal monitoring systems function well and are able to promote accountability (Aguilera et al., 2006).

The Board is also seen as the bridge for the shareholders and the executives and between companies and communities (Cadbury, 2000; Jamali et al., 2008). Ntim & Soobaroyen (2013) also point out that research often focus to both topics distinctly due to different facet of corporate governance and CSR.

2.5.2 **Corporate governance and CSR**

Theoretically, CSR involves responsibilities towards internal stakeholders (i.e. shareholders and employees) and external stakeholders (i.e. government, customers, society). To serve stakeholders at their best efforts, companies have to go beyond the letter of the laws and regulations. However, decision to put commitments towards CSR and translates it into activities lies on the shoulders of company's governance as The Board is a "point" where the interactions of external stakeholders meet with the internal affairs of the companies (Jamali et al., 2008).

From stakeholder theory point of view, Sacconi (2006) had proposed substantial reform of the governance structure to include institutional arrangement. Institutional arrangement entails firm to include other stakeholders in board as to safeguard the effects of firms' activities on stakeholders other than shareholders. This is to achieve greater social efficiency which is fond to only one party in the conventional model i.e. agency theory and value maximisation. This will refrain governance structure to only drive the firms' objectives to benefit one party. Sacconi (2006) also suggested in this CSR model that the incentive for the firms' management is made with a view to compensate and redress to avoid self-utility maximisations.

Sánchez et al. (2011) investigating the relationship between corporate governance and the CSR of public listed companies in Spain found that the interaction of corporate governance attributes creates a social sensibility of corporate governance in response to the stakeholders' competing demand. Corporate governance attributes such as ownership power, capital concentration and high institutional ownership as well as independence, the pluralism of the Boards (i.e. external independent directors, the frequency of the Board's meetings and non-directors capital) increase the sensibility of corporate governance. Thus, this exerts the Boards in to becoming more sensitive to social orientations. From the findings, Sánchez et al. (2011) suggested that the composition of the Board - such as having other stakeholders on the Board - would increase the sensibility of the Boards themselves, and hence would improve their CSR performance.

Ntim & Soobaroyen (2013) also found that companies with good governance have a positive influence on CSR performance and simultaneously improve their corporate financial performance. Companies with the governance attributes of a larger board size, diverse and more independent executives plus government ownership exhibit high CSR performance (Ntim & Soobaroyen, 2013). In contrast with the studies done by Aguilera et al. (2006) and Moore (2012), high block and high institutional ownership discourages CSR (Ntim & Soobaroyen, 2013). Their study supported that the type of ownership and the board's characteristic has a roles in CSR performance since the efforts to improve the companies' performance start in the boardroom.

On top of that, Ntim & Soobaroyen (2013) also found that the relationship of corporate governance's effects and CSR is persistent, suggesting that good corporate governance could influence high CSR engagement continuously. In addition, good corporate governance could narrow the gap in the agency problems by controlling the managers' actions in their commitment to CSR, so that CSR would not be performed for the purpose of fulfilling the managers' self-interests (Moser & Martin, 2012), thus improving the agency-principal relationship as introduced by Jensen & Meckling (1976).

In conclusion, studies show that corporate governance could influence the quality of CSR and CSR could influence the sustainability of firms in the long run. However, there are mixed result on the specific attributes of corporate governance relative to CSR performance. As pointed out by Ntim & Soobaroyen (2013), inconsistent result might be due to different context as the nature of CSR is closely related to characteristics of stakeholders.

2.5.3 Corporate governance and aggressive tax planning

Every firms' business decision including tax affairs depends on the abilities and capabilities of its management i.e. Board of Directors and key management personnel. Moore (2012) had reviewed that the institutional ownership could strengthen the monitoring systems. In addition, Ntim & Soobaroyen (2013) though had opposite result relating to the influence of institutional ownership, posit that the actors of corporate governance i.e. The Board play important roles in corporate decision and affairs.

In relation to that, Moore (2012) found that companies with a high level of institutional ownership, a high independent level of Boards, smaller size of Boards, and varied sizes of audit committee engage in less tax planning activities, specifically aggressive tax planning. Moore (2012) emphasised on the results relating to the institutional relationship where within pre- and post-SOX in the US, the institutional ownership attribute is consistently negative towards the BTD (10 years period). In line with the role of legitimacy theory, which is suggested to be about tax planning threats, this finding supports that corporate governance functions will positively mitigate risks to the companies; i.e. tax planning threats.

In term of tax planning activities, Minnick & Noga (2010), on the other hand, found that US public listed companies (i.e. big companies) with a high compensation towards the Boards were involved in a high level of aggressive tax planning. Armstrong et al. (2012) also found that tax directors are involved in tax reducing activities when there are incentives (compensation) available. Minnick & Noga (2010) used *'tax management'* in reference to tax avoidance since they ascertained that big firms in the US are already adept at aggressive tax planning, which need systematic tax management. They concluded from their study that good corporate governance such as low compensation and diverse Board composition might mitigate aggressive tax planning activities.

The claim made by Minnick & Noga (2010) shows that managers are also taking advantage of tax planning activities to fulfil their self interests, not only in CSR as claimed by Moser & Martin (2012). This is in line with the argument in the first role of organisational legitimacy theory that CSR and tax planning activities are perceived as being legitimate based on the value maximisation approach. Thus, with the value maximisation justification in place, some managers manipulate value maximisation for their own self-interests. This when on relation to CSR, because of the multiple dimension characteristics, means that managers might manipulate their self-interest behaviour by justifying their actions as fulfilling the stakeholders' objectives (Sternberg 1997; Jensen 2010). Therefore, it can be concluded that corporate governance could restrain managerial opportunism behaviour in relation to carrying out any activities for the companies.

Nevertheless, in the study done by Abdul Wahab & Holland (2012) which did not find that internal monitoring mechanism such as corporate governance could moderate the shareholders' evaluations upon the tax planning activities though it was found that companies with high tax planning activities exhibits a decrease in their firm's value.

However, they suspected that ineffective functions in the corporate governance attributes might exist due to context differences if compared to Desai & Dharmapala (2007). Desai & Dharmapala (2007) found that corporate governance may moderate the shareholders' valuation as a result of tax planning activities. Their finding implied that shareholders may oppose any actions that may morally deteriorate the companies' reputation. Abdul Wahab & Holland (2012) claimed that the variation in the corporate governance function in moderating negative approval from the shareholders towards the firms' tax planning activities may depend on the differences in tax-related institutions and the policies between countries.

In summary, an internal monitoring system such as corporate governance helps company in dealing with tax affairs, either compliance or avoidance. Specific corporate governance attributes have influential on of tax avoidance activities since they hold rights in making decision on shareholders' wealth and resource allocations. From the literatures, specific attributes of corporate governance such as tax knowledge of the Board drive firms either to involve in aggressive tax planning or vice versa. Other characteristics of corporate governance such compensation structure also influence tax planning activities due to managerial opportunism. However, there were inconsistent findings obtained whether institutional ownership might positively or negatively influence tax planning. To conclude, the efficiency of corporate governance on aggressive tax planning activities also depend on the context of the firms. Different context probably signals different risks and threats on the tax planning activities, which affect firms' and stakeholders' perceptions on the tax planning activities.

2.5.4 **Summary of corporate governance**

In summary, the effectiveness of corporate governance functions plays an important role in CSR and tax planning activities. The efficient characteristics of corporate governance include the size of the institutional investors, the Board characteristics such as an independent and diverse board structure and the size of the Board's compensation are found to influence CSR and aggressive tax planning activities. In spite of that, the influence of effective corporate governance over CSR and tax planning activities exhibits an inconsistent type of association. This might be due to the different contexts of the business environments as pointed out by Ntim & Soobaroyen (2013), as CSR is context sensitive because it deals with different types of stakeholder. Similar to CSR, tax-planning activities are also context sensitive as tax policies amongst countries is different according to the respective national economic aims.

Besides the stakeholders' demand and ethics, the parameter of the theories and CSR model also depends on the context of the companies. The prediction of the theories and CSR model of how the results might turn up might be also influenced by other factors. Other factors include the characteristics of the companies; for example, the profile of the companies, the business context (locations), the level of profitability and leverage also influences the orientation of CSR within the firms. There are also factors that will assist or moderate how companies carry out CSR in their activities such as the companies' external and internal disciplinary (i.e. organisational field of the companies and external market organisation process) monitoring, the control system and labour forces (Moser & Martin 2012; Matten & Moon 2008).

Nevertheless, to the best knowledge of this study, thee are lacks of studies that consider the interaction effect of corporate governance on the relationship of CSR and tax planning. Recently, Laguir et al. (2015) also found no significant relationship of corporate governance and the aggressive tax planning.

2.6 Chapter Summary

This chapter is written to capture the theories surrounding CSR and tax planning. The theories relating to CSR such as legitimacy theory and stakeholder theory have been discussed in depth inside this chapter. The value maximisation theory and agency theory are also elaborated in this chapter for the purpose of developing theoretical linkage between CSR and tax planning. The agency theory is briefly touched for the purpose of associating corporate governance variable in this study. The interactions between the theories provide possible perceptions relating to CSR, tax planning activities and corporate governance.

This chapter is highly referred to develop the hypotheses of this study in Chapter 3 and establishing the theoretical frameworks.

3. Theoretical Framework and Hypotheses Development

3.1 Introduction

Theories guide a framework which provides an insight into the general rules of behaviour (Zikmund, 2003). Theories therefore are employed to understand and predict when different events occur that are theoretically comparable. Theoretical frameworks combine one or more theories to provide " *the structure, the scaffolding, the frame"* (Merriam 1998: p45) for an academic work (Rocco & Plakhotnik 2009). This study highlights the organisational legitimacy theory, stakeholder theory, agency theory and value maximisation theory as the main argument to relate CSR and the extent of tax planning. All the theories had been discussed in section 2.2 in Chapter 1.3 previously.

The theories, the concepts of tax planning and CSR discussed previously provide frameworks about the possible relationship between CSR and the extent of tax planning. Since the motives of firms in undertaking CSR and tax planning activities are not certainly known, these theories enable this study to predict the possible and complex relationship between CSR and the level of tax planning.

Based on the theories discussed previously, the relationship between CSR and the level of tax planning depends on how firms might view their CSR practices, either as altruistic or strategic; and how firms view their tax related stakeholders. Therefore, the firms' attitude towards CSR is vital in associating firms' behaviour toward tax planning activities. The discussions of possible linkage are divided into two perspectives based on 2 significant views on CSR; altruistic (moral and ethics) and strategic tool (instrumental).

Further, apart from generating hypotheses and models for the relationship of CSR and the extent of tax planning, this chapter also presents the hypothesis relating to corporate governance, CSR and the extent of tax planning.

3.2 Hypotheses development

3.2.1 **Altruistic or intrinsic CSR**

Stakeholder theory emphasised morals and ethics as a central justifications or as precondition before firms fulfil their commitments to stakeholders. As a function of stakeholder approach, CSR therefore inherit the same moral and ethics motivations for the firms to conduct business activities (Benabao and Tirole 2003, 2010, Sacconi 1999). CSR are expected to balance the capitalism and ethics (Freeman et al. 2010). Acting as shared belief (Keung Hoi et al, 2003), it is anticipated that this value would refrain firms from perceived irresponsible activities such as intentional misstatement or manipulations.

As an established business concept that holds up to the code of ethics, studies had proven that CSR had been found to shape the qualitative attributes of financial information (Kim et al. 2012), mitigate the stock price crash risks for companies (Kim et al. 2014), and also attract potential shareholders and investments (Dhaliwal et al. 2011). These findings warrant that if CSR is carried out altruistically, firms entail less manipulation and provide more truthful information to their stakeholders.

CSR also is regarded as an extended model of corporate governance where firms have fiduciary duties to all major stakeholders who had made specific investment financially and non-financially (Sacconi 2006). Parallel to stakeholder theory which manifest the fair treatment to all stakeholders, firms have responsibilities to not only serve economic returns to shareholders but also share it to other stakeholders such as public through their fair share of tax. This is because in extended model of corporate governance introduced by Sacconi (2006), payment of tax would involve directly government i.e.

HRMC and the society. Thus paying their fair share of tax should be one of the companies responsibilities and any actions to manipulate the amount of tax through tax planning activities should be regarded as socially irresponsible (Dowling 2014).

Moreover, tax planning if taken aggressively might fall into the risk of tax evasion which is illegal (Alm 2014). This is because these activities entail lack of economic justifications and the exploitation of tax laws. It is also regarded as crime and abuse of authority (Becker 1974, Sacconi 2006, O'Connell 2014). Aggressive tax planning also undertaken as a result of self-utility maximisation behaviour and personal motives managers (Schrand and Zechman 2012: Ariely 2008) which are adverse to the ethical concept. These behaviour could be accorded as abuse of authority as certain parties in the firms are not truthful in complying with commitments (Sacconi 1999: Long et al. 2008: Zattoni and Alessandro 2011).

Therefore, based on the ethics and moral values embedded in CSR, it is expected these value would counteract the abuse of authority occurred in a firm. By counteracting these behaviours, firms with a good CSR rapport are expected to less likely to be involved in aggressive tax planning.

Thus, from stakeholder theory point of view, it is hypothesised that

Hypothesis 1a: According to stakeholder theory, if the CSR is practised altruistically, the relationship of CSR and the extent of tax planning is negative.

As tax planning is priced based on tax savings components (Abdul Wahab and Holland, 2012), as mentioned in Chapter 4, there are 4 hypotheses to relate CSR and the tax savings components are:

Hypothesis 1a (1) There is a negative relationship between CSR and the extent of tax saving from the permanent differences in the non-financial companies quoted on the LSE.

Hypothesis 1a (2) There is a negative relationship between CSR and the extent of the temporary differences in the non-financial companies quoted on the LSE.

Hypothesis 1a (3) There is a negative relationship between CSR and the extent of tax saving from the statutory tax rate differences in the non-financial companies quoted on the LSE

3.2.2 **CSR as strategic tool**

Organisational legitimacy theory under pragmatic approach suggests that company might find strategies to legitimise their actions by managing the organisational legitimacy threat proactively or reactively. This theory also suggests that there are limitations to the extent of any activities that are supposed be carried for them to stay relevant (Van Der Laan 2009; Suchman 1995).

3.2.2.1 CSR as preventive tool

This theory also serves as a foundation for CSR activities in terms of organisational legitimacy threat (Van Der Laan 2009), therefore, CSR is associated with tax planning through the management of threats (risks) from tax authorities and the public (Carroll & Shabana, 2010; Crowson, 2009). This will be the case because tax authorities and the public through the appropriate channels might become one of the salient stakeholders of the company. Agle, Mitchell, & Sonnenfeld (1999) and O'Donovan (2002) have acknowledged that the threats or risks exposed by salient stakeholders are considered to be one of the characteristics used to determine the stakeholder's salience.

In relation to tax planning, with mixed views upon the legitimacy of tax planning activities, this theory predicts that there will be a certain level of threat that the company might take into consideration. In line with this, Holland, Lindop, & Zainuddin (2013) found that companies show different responses to tax threats although they were all targeted by a high profile pressure group as engaging in unacceptable tax planning. Holland et al. (2013), in their study investigating seven companies quoted on the

London Stock Exchange (LSE) as being criticised by UK Uncut[9] for unacceptable tax avoidance activities, found that in terms of tax-related disclosures, the companies responded differently to the tax avoidance accusation threats. There were companies who chose to challenge the threat and there were companies who chose to ignore the tax avoidance threats. This reflects that companies view the level of threats differently.

From rational cost economist benefits, firm might continue to pursue aggressive tax planning if they found the benefits of carrying these activities are more than risks involved. This is in line with Becker (1974) in which it is difficult for the government to set optimal conditions in term of social crime as the costs of determining the crimes and the punishment are difficult to be commensurate. Therefore, firms might continue to engage in aggressive tax planning activities as they might perceive that enforcement taken by HMRC is not effective in term of risks they have to encounter; and vice versa.

The common agency model is relevant in discussing the alternative firms may have when facing such risks by the HMRC as a result of engaging in aggressive tax planning. In a simple game theory (Mallard 2015), in aggressive tax planning setting, if other principal such as HMRC are offering higher risks in term of fines or penalty as a result of being caught, which it may reduce the compensation as a result of tax savings from tax planning, firms' management may choose the optimal way in order safeguard the benefits received from fulfilling shareholders' demands (Mallard 2015). Thus, if firms' management still hold on the self-utility maximisations, the physical financial outcome will still become the aim and indirectly serve shareholders who are aggressive in maximising utility and still engage in aggressive tax planning activities.

If shareholders are risk takers, and based on pragmatic approach in organisational legitimacy theory and common agency theory, firms might make adhere towards shareholders' demand. Therefore, it is assumed that higher commitment towards CSR is similar to higher commitments towards shareholders.

[9] UK Uncut is a high profile pressure group that accessible by the public.

However, there is evidence that aggressive tax planning schemes might score against the legitimacy of the companies, hence damaging the continuity of the businesses (Sikka 2010). Sikka (2010) claimed that in that aggressive tax planning was one of the reasons for big companies like Enron, Parmalat and World Com collapsed. Frank et al. (2009) have admitted that risks of tax scrutiny by tax authority is severe where that companies involving in a high level of earning management did not involve themselves in aggressive tax planning because of the risk of scrutiny from tax authorities. This is in line with the claim made by Keung Hoi et al. (2013) in that a company might also use CSR as a risk management tool, particularly to manage the potential risks from influential stakeholders. Keung Hoi et al., (2013) also claimed preventive strategy, companies might value the risk of tax avoidance by taking considerations the weight of the external stakeholders related to tax such as tax authority. As mentioned in the Agle et al. (1999) relating the perceived important of the stakeholders, if the companies treat their stakeholders fairly and give higher considerations to tax authority, then it is possibilities that CSR is negatively related of tax avoidance behaviour. The higher the attitude towards CSR, the lesser tax avoidance activities undertaken by the companies and vice versa. This preposition however depends on the relative important of the stakeholders.

From the stakeholder theory point of view, as a body who have control over the tax systems, the tax authority's scrutiny such as stricter enforcements and the introduction of anti-avoidance rules increases the influential power (Agle et al. 1999) of a tax authority over the company. The scrutiny would increase the risks and costs of tax avoidance activities (Phillips et al. 2003), which would then influence the company to reduce their corporate tax avoidance activities (O'Donovan 2002). There are potential threats if the company fails to pay their fair share of tax to the authority, such as the risk of being audited and penalised if found guilty (Alm 2014; Dowling 2014). From the stakeholder theory point of view, increased threats, risks and costs would also increase the stakeholder's importance (Agle et al. 1999; Phillips et al. 2003) and influence the company's attitude towards tax avoidance; thus it may reduce their tax planning activities.

However, the relationship of CSR shall not be seen from only a theory point of view because in real business world, companies are exposed to different theories in making their strategic decisions. Results from the study done by Laguir et al.(2015) provide an evidence that the relationship of CSR and tax planning does not follow one direction when the dimensions of CSR are disaggregated. Laguir et al. (2015) reveals that when companies focus more on the social related CSR, they will more likely to engage in less aggressive tax planning. In contrast, the higher the economic and environment involvement, companies will be more likely to involve in aggressive tax planning activities.

Besides exposing the companies to the tax authority counteractions, the risk of engaging in a high level of tax planning might also be harmful to the company itself. Bon Kim et al. (2011) found that aggressive tax planning is positively associated with the risk of a shocked drop in share price. The share price might drop as a result of losing the confidence of shareholders due to the risks being taken by the companies in pursuing tax planning strategies. They elaborated that tax planning activities such as compensation contracts help companies to give excuses for the operating loss suffered by a company. This act would go on to create market confidence resulting in the overvaluation of shares. Up to a certain point, the accumulated poor performance concealed will be suddenly leaked to the stock market, resulting in the share price dropping drastically. However, Bon Kim et al. (2011) claimed that the risk of a shocked drop in shareholders' confidence is weakened if the firms have strong internal monitoring (high performance of corporate social responsibility, high institutional ownership and diverse Boards) and external monitoring mechanisms (high analyst coverage and greater takeover threat from corporate control markets).

Abdul Wahab & Holland (2012) also found that companies with high tax planning activities exhibits a decrease in firm value. Shareholders may reflect their disapproval by selling off their investments in the companies since the internal monitoring fails to sustain the shareholder confidence over the firms' risky decisions like tax planning.

Thus, it is expected that companies accept the concept of CSR and that a higher commitment towards CSR would consider the stakeholders' influential power and how it may potentially affect the company. If the tax authority is able to provide potential threats to the company, it is therefore expected that a company with high CSR performance would be less engaged in high level tax planning activities.

These occasions and empirical evidences exhibit that tax planning is linked to CSR through the function of the stakeholders' salience. As one of the stakeholder groups, the tax authority holds a profound characteristic in relation to the legal aspects of CSR (Carroll, 1979; Schwartz & Carroll, 2003).

However, there are unknown situations whether firms might perceive the HMRC rules and regulations towards the decision of aggressive tax planning activities. If firms perceived that the risks might mitigate the benefits of aggressive tax planning activities, firms might less engage in aggressive tax planning activities.

Thus assuming that the risks contributed by HMRC are high, the proposition will be

Hypothesis 1b: Based on the pragmatic approach in organisational legitimacy theory, assuming the risks of engaging in aggressive tax planning is high, the relationship of CSR and the extent of tax planning is negative.

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3.2.2.2 CSR as reactive tool

Strategic approach in legitimacy theory also provides the notion that CSR might be exploited as a tool to divert the stakeholders' attention from perceived illegitimate activities. CSR might be taken as a strategic tool to cover up because of its noble image. As regarded by Wang and Tuttle (2014), CSR consists of the 'halo effect' in which the stakeholder always perceives the CSR disclosure and performance as being accurate, thus making up their trust on the companies' credibility. Therefore, if companies perceive that their tax planning activities are aggressive and might attract negative sentiments, they may shift public attention away from this by promoting other aspects of their companies such as CSR (Dowling, 2014). This is in line with the claim that companies might begin manipulating situations when it comes to legitimising their actions. This is evidenced by the study done by Kotchen and Moon (2011) where the authors found that generally, a companies’ corporate social irresponsibility appears to increase their CSR image.

Figure 3-1 The relationship between CSR and tax planning in previous year

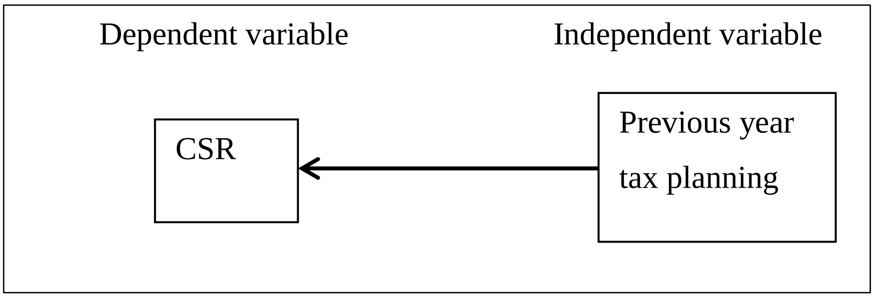


Figure 3-2depicts the other direction of the relationship between CSR and tax planning where the companies’ perception about the extent of their tax planning activities may trigger and shape the CSR performance. If the companies perceive that their tax planning activities are threatening their legitimacy, they will increase their CSR performance in the future.

Empirically, from the study carried out by Watson (2011), he found that socially responsible companies still engage in a high level of tax planning activities more than socially irresponsible companies. Watson (2011) stated as such when he found that socially responsible corporations (when measured by overall scores of CSR disclosures) held a lower effective tax rate (ETR)[10] and higher unrealised tax benefit (UTB)[11] than socially irresponsible companies (corporations with lower score of CSR disclosures). He claimed that companies are not keen to dedicate themselves to CSR if it is not

[10] ETR is one of the measurements used to assess the level of tax planning. A lower ETR value indicates a higher tax planning level (Hanlon, 2010)
[11] UTB is an unrealised tax benefits disclosure as governed by FIN48. It consists of the forecasted tax savings resulting from the promoted investments incurred by corporations that are eligible to claim tax incentives but that have not yet realised this.

promisingly profitable (i.e. they will not sacrifice the tax savings benefit resulting from tax planning activities for the sake of the CSR spirit).

The arguments and empirical evidences above reflect that companies have the potential to manipulating CSR as a tool to legitimise irresponsible actions. If the companies perceive a high level of tax planning as being an illegitimate and irresponsible activity, there is the possibility of CSR to be taken as a tool to divert public attention away from aggressive tax planning activities (Christensen & Murphy 2004).This is due to the concept of CSR which is that it portrays good citizenship behaviour (Avi-Yonah 2006; Donaldson et al. 1995; Lantos 2002). However, Holland et al. (2013) claimed that despite variations in the companies' responses to tax reputational threats in term of tax-related disclosures , other types of response including CSR were not examined and remain unknown

It is therefore hypothesised that:

Hypothesis 2 ($H_{2)}$: There is a positive relationship between the previous year's extent of tax planning and CSR in the non-financial companies quoted on the LSE

3.2.3 The relationship of CSR dimensions and the extent of tax planning

As CSR manifested into three big dimensions as discussed in Chapter 1, namely, economic, environmental and social, it is hypothesised that based on Value maximisation theory, and under strategic organisational legitimacy theory, the higher score of economic dimension, the higher the level of tax planning. This is because firms' commitment to shareholders are categorised under economic dimension.

If HMRC particularly is not challenging them with greater enforcement, as on the government side, costs of offences in term of detecting the offences are high (Becker 1974), firms would continually engage in aggressive tax planning activities. As one of government agency, HMRC would be one of the stakeholders of the firms. In this study, HMRC is assumed to be in social dimensions.

In addition, Stakeholder theory suggests that companies are aware of their wide range of stakeholders including the public because the public are the end users and customers of their business. Besides providing good products and rendering great services to the public, companies are contributing to the public through the payment of their fair share of tax. Acting on behalf of the public is the tax authority as a body that administers tax affairs in a given country. The public/society, as the end receiver of government projects/welfare, is regarded as being one of the stakeholders of the company. Thus, paying their fair share of tax should be one of the company's responsibilities and any actions when it comes to manipulating the amount of tax through tax planning activities should be regarded as being a socially irresponsible activity (Dowling, 2014).

In CSR, the involvement between the companies and the public are portrayed through social investment commitments and business strategy (as in the case of Australia CSR disclosure) (Lanis and Richardson, 2012). Empirically, Lanis & Richardson (2012), in their study of 408 Australian companies from 2008 to 2009, found that particular aspects of CSR such as social investment commitments and CSR strategy including business ethics and conducts were found to have a negative impact on tax planning behaviour. This is similar to Huseynov & Klamm (2012), who found that companies with a high CSR profile have a negative effects on aggressive tax planning or activities related to aggressive tax planning such as external tax services. Keung Hoi, Wu, & Zhang (2013) also found that companies with a bad CSR profile have a greater likelihood of engaging in aggressive tax planning activities.

Empirical evidence conveyed by the studies done by Lanis & Richardson (2012), Huseynov & Klamm (2012) and Keung Hoi et al. (2013) show that careful observations on each CSR component may provide a better explanation towards the tax planning phenomena. This is in line with the claim made by Bird et al. (2007) in that CSR quality could influence the market and society generally not only by its totality, but also in relation to each of its components.

In addition, study done by Laguir et al.(2015) provide evidence that business related CSR dimension such as economic and environmental dimensions are positively relate to the tax planning activies. The authors claim that by engaging in business related CSR dimensions, companies are developing a corporate culture that geared towards higher post tax-profits through tax planning activties.

As the associations of the CSR dimensions are mixed, therefore, non-directional hypotheses were developed.

Hypothesis 3: There is an association between CSR dimensions and the extent of tax planning

The relationship of CSR and tax planning has been expanded to include the dimensions of CSR used in this study as explained in section 4.3.2, namely the economic, environment and social dimensions. CSR dimensions are the result of instrumental approaches in stakeholder theory which label business activities according to stakeholder demands. It therefore could be hypothesised that:

Hypothesis 3a: There is a relationship between the economic dimension as a CSR component and the extent of tax planning in the non-financial companies quoted on the LSE.

Hypothesis 3b: There is a relationship between the environmental dimension as a CSR component and the extent of tax planning in the non-financial companies quoted on the LSE.

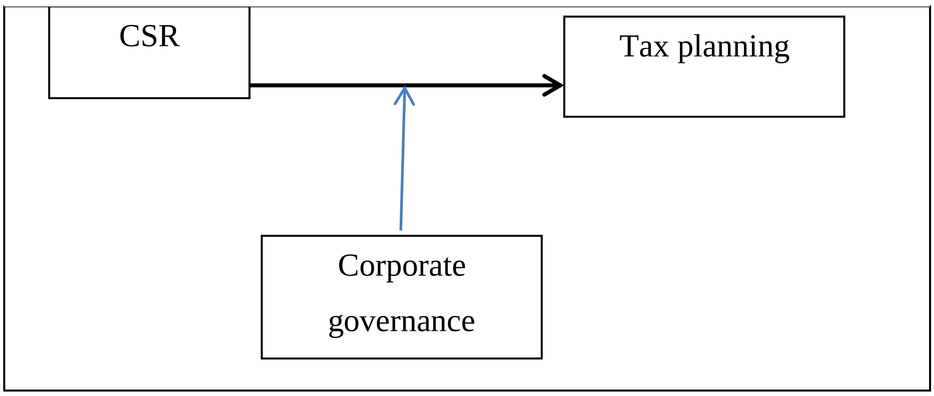
Hypothesis 3c: There is a relationship between the social dimension as a CSR component and the extent of tax planning in the non-financial companies quoted on the LSE.

3.2.4 The moderating effect of corporate governance on the relationship of CSR and the extent of tax planning

Corporate governance means "the system in which the companies are directed and controlled (Cadbury, 2000: p8). Ntim and Soobaroyen (2013) found that corporate governance plays an important role in improving the agency-principal relationship by reducing agency costs as highlighted by Jensen and Meckling (1976). In tax planning, agency theory helps in explaining the motivation of managers to pursue the shareholders' wealth objective, i.e. increasing after tax returns. As such, corporate governance could be regarded as acting on behalf of the shareholders to sustain the companies' competitiveness and legitimacy.

Figure 3-2shows the ways that corporate governance is pre-positioned between the relationship of CSR and the extent of tax planning.

Figure 3-2: The moderating effect of corporate governance



Acting a bridge between companies and the wider market (Aguilera et al., 2006), corporate governance has found that companies with a good quality of corporate governance such as high institutional ownership, Board independent) engage in less aggressive tax planning activities (Moore, 2012). However, some studies (Minick and Noga, 2010) found that directors are involved in tax reducing activities if there are commensurate incentives available.

In term of CSR, Ntim and Soobaroyen (2013) found that the relationship of corporate governance and CSR persists where good corporate governance may influence continuously good CSR performance.

With the findings discussed above, corporate governance is seen of as a factor that could moderate the relationship of CSR and the level of tax planning based on the agency-principal relationship to reduce managerial opportunism (Schrand and Zechman 2012),. As both CSR and tax planning are context-sensitive, it is important to investigate the moderating effect that corporate governance practice in the UK has on the relationship of CSR and the level of tax planning. Therefore, in line with the hypotheses developed on the relationship of CSR and the level of tax planning, it is hypothesised that:

> **Hypothesis 4: The relationships between CSR and the extent of tax planning are moderated by the companies' corporate governance in the non-financial companies quoted on the LSE**.

3.3 Chapter Summary

This chapter had developed the hypotheses to be tested in this study to answer the research questions. There are four main hypotheses developed from the theoretical research framework in order answer all the research questions.

4. Research Design

4.1 Introduction

A research design is a *"master plan specifying the methods, the procedures for collecting and analysing the needed information."*(Zikmund, 2003: p65). This chapter starts with the discussions of sample and data collection method, variable definitions which present in detail the measurement for dependent variable, independent variables, control variables as well as moderating variable. This chapter proceeds with the development of regression models for the purpose of testing the hypotheses discussed in Chapter 3.

4.2 Sample and Data Collection Methods

The sample frame of this study are the non-financial companies listed on the London Stock Exchange (LSE) for the period from 2005 to 2014. The data for tax planning, including book tax differences (BTD) will be extracted and hand collected from the companies' published financial reports in their tax note disclosures. The data for CSR corporate governance (CG) and the companies' specific characteristics (CSC) will be collected from ASSET4 ESG (external ratings provided by Thompson Reuters) available on Datastream and FAME from 2005 to 2014.

ASSET4 ESG rating is a database provided by Thompson Reuters[12] and is available on DataStream. It covers time series data for Economic, Social and Governance (ESG) for widely active equity in many countries including the UK. As the sample selected for this study is the non-financial companies listed on the London Stock Exchange, the ASSET4 ESG Ratings is more suitable to represent CSR practices in the companies. The ASSET4 ESG Ratings reports on the CSR performance based on CSR's multi-dimensions to cater to multiple stakeholders' demands. This characteristic matches the

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[12] see http://extranet.datastream.com/data/ASSET4%20ESG/Index.htm assessed on 30 January, 2016. Please also see Appendix A

stakeholder instrumental approach in CSR, which reflects the various stakeholders of the company.

FAME, on the other hand, is a database that provides time series detailed information about UK and Irish companies including publicly listed and private companies. The FAME database provides information including company financials, financial strength indicators, directors and contacts, stock data for listed companies, detailed corporate structures and the corporate family, shareholders and subsidiaries, industry research, adverse filings, business and company-related news, M&A deals and rumours. This database is useful in finding the for company-specific characteristics (CSC) such as the type of industry, company size and also some of their corporate governance variables.

The ten-year duration (2005 – 2014) was selected to suit the availability of the latest data and to align with the beginning of the stricter enforcements undertaken by the HMRC to reduce the tax avoidance activities among big companiess due to the introduction of *“The Hampton Review”* in 2005. As cited by Abdul Wahab and Holland (2012). *“The Hampton Review”* was published with the objective to reduce the administrative burden of legislation while maintaining or improving regulatory outcomes. The 10 year duration (2005-2014) chosen in this study is expected to capture the effect of the stricter and more aggressive approaches taken by the HMRC until they came out with the introduction General Anti-Abuse Rule (GAAR) in the 2012 Budget.

4.3 Variable Definitions and Measurements

4.3.1 **Dependent Variable: Measurement of the extent /level of tax planning Book Tax**

The dependent variable for this study is the extent/ level of tax planning and the independent variable is CSR performance. The control variables include corporate governance and specific companies ‘characteristics.

Differences (BTDs) has been chosen as proxy to measure the level of tax planning as the dependent variable of this study. BTD means the difference between the book income according to GAAP and the taxable income reported by companies (Abdul Wahab & Holland 2014; Frank et al. 2009).

In the UK, companies have to prepare their financial statements for financial reporting purposes by adhering to the *International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP).* Whereas, for the purpose of tax compliance and payment, companies have to report their taxable income calculated by virtue of the Corporation Tax Act (CTA). Different purposes of reporting have therefore produced two types of reported income; book income as per GAAP and taxable income as per Corporation Tax Act (CTA). Thus, for disclosures relating to corporate income tax, companies have to report their tax-related information in the financial reports by virtue of the *International Accounting Standard (IAS 12)* – Accounting for Income Tax and Generally Accepted Accounting Principle (GAAP) in the UK. IAS 12 specifically covers the disclosure of corporate income tax to align with the book income and taxable income of the companies. From the disclosure, the estimated Book Tax Differences (BTDs) could be calculated to capture the differences between book income and taxable income.

BTDs are claimed to be informative about the persistence of earnings by Hanlon (2005). Taxable income used to arrive at estimated BTDs, as they are not openly subject to manipulations as the tax laws and regulations are under the tax authority’s strict evaluation (Hanlon, 2005). Abdul Wahab & Holland (2014) found that in the UK, the overall BTDs persist and remain representable since the majority of the companies being investigated had consistencies in their BTDs. However, the degree of persistence depends on the component of the BTD and if it is industry sensitive. They suggested that in order to validate the BTDs as a proxy towards the companies’ tax planning behaviours, a study should be carried out across multiple periods so that consistencies and persistence would not distract from the validity of the judgement made.

On top of that, due to elements of BTDs which include the risk of tax avoidance activities, BTDs are becoming an important target area by tax authorities to tackle tax planning behaviour, especially tax avoidance among corporations. The enforcement of regulations requiring firms to disclose reportable transactions that produce significant BTD shows that the tax authorities and the government are being sterner towards tax avoiders. For example, in the U.S, big and medium firms have to report the significant BTDs either under the regulatory requirements or under private requirements i.e. Schedule M-3 (Carman 2005). The concern of tax authorities over the information that BTDs could deliver shows that BTD is still an important indicator of tax avoidance behaviour.

In the UK, in the programme of tackling tax avoidance, the HMRC also chose BTD as a specific anti- avoidance measure[13] in their reviews of the risks of company undertaking tax avoidance activities (HM Treasury & HMRC 2011). Besides, as emphasised in *The Hampton Review, 2005* (Hampton 2005), BTDs could also be used as a risk assessment procedure before detailing the authorities' investigations being conducted on the targeted companies.

Abdul Wahab & Holland (2012) noted that tax planning is priced based on BTDs and its components or also known as tax savings elements such as permanent differences (PDs), temporary differences (TDs), standard tax rates differences (STRDs) and tax losses (TL). It is worth noting that all tax savings elements as a result of tax planning are able to be captured, thus arriving at the estimated BTDs itself. According to the mathematical equations model discussed in Abdul Wahab and Holland's study (2014), BTDs could be disaggregated into permanent differences (PDs), temporary differences (TDs) and standard tax rates differences (STRD). Thus the level of tax planning can be measured totally on the estimated BTDs as well as on its elements or components separately.

[13] *Tackling tax avoidance* (HM Treasury, para 2.16), March 2011.

From the tax planning perspective, permanent differences (PDs) arise because of the different measurements and treatment of income from two different regulations, i.e. accounting GAAP and tax laws and regulations or non-conforming tax planning (Armstrong et al., 2012). Frank et al. (2009) documented that aggressive tax planning activities are assumed to generate higher permanent tax savings, therefore increase the permanent tax differences (PDs). Permanent tax differences (PDs) are found to have consistency with tax sheltering activities, rather than temporary tax differences (TDs) (Frank et al., 2009). Permanent tax differences components have been used by Armstrong et al. (2012) to measure aggressive tax planning activities. In addition, Frank et al. (2009) have developed and employed discretionary permanent book tax differences and discovered that the total BTD is highly correlated with discretionary tax differences. This reflects that high BTD would probably indicate a high level of aggressive tax planning or tax avoidance.

Temporary tax differences (TD), on the other hand, arise because of temporary differences or timing differences in the way that a transaction is treated between accounting GAAP and tax laws and regulations (Abdul Wahab and Holland, 2014). Abdul Wahab and Holland (2014) elaborated that TDs may affect the tax expense compositions but TDs would have no absolute effect on the periodical accounting report on tax expenses as a result of the reversal of differences. TDs is always being referred to as an indicator for earning management practices because it consists of pre-tax discretionary accruals, which are correlated to an earning management indicator (Frank et al., 2009). However, Frank et al. (2009) also argued that there is the possibility that temporary book tax differences are used as a proxy for financial reporting aggressiveness correlated to aggressive tax planning. This is the case where they found that aggressive tax reporting was overpriced by the market in the presence of the most aggressive financial reporting. Abdul Wahab and Holland (2014) again added that despite producing only temporary BTDs, TDs might bring a more permanent effect if a company is able to consistently generate new TDs through continuous tax planning.

The third source of BTDs can arise from the statutory tax rate differences (STRDs) between home jurisdictions (UK) and other jurisdictions where the companies have operating subsidiaries. STRDs also have been employed as part of the indication of tax management strategies in the study done by Abdul Wahab and Holland (2014) in examining the persistence of BTDs.

In summary, based on the discussions about BTDs above, BTDs could be employed as a proxy towards tax planning behaviour among the non-financial companies quoted on the LSE. Continuing on from the above discussions, this study has utilised the information and BTDs equations developed by Abdul Wahab and Holland (2014). The mathematical equations to arrive at the estimated BTD, PD, TD and STRD are as in the table below:

Details of calculations	Eq
$TP_{it} = BTD_{it}$	(1)
Where TP = the extent or risk of tax planning BTD = estimated book tax differences	
BTD is arrived by expanding the equations below: $BTD = PBT - TaxP$	(2)
Where PBT = Profit before tax TaxP =Taxable profit	
TaxP = CTE[14] grossed up ;	(3)
$TaxP = TaxP_{uk} + TaxP_{os}$	(4)
Where CTE = current tax expenses $TaxP_{uk}$ = Taxable profit in the UK $TaxP_{os}$ = Taxable profits outside of the UK	

[14] CTE is available in the income statement and the tax notes of the companies

$$CTE = (TaxP_{uk} \times STR_{uk}) + (TaxP_{os} \times STR_{os}) \quad (5)$$

Where
STR_{uk} = UK statutory tax rates
STR_{os} = Overseas' statutory tax rates

Equation (4) is rearranged to disaggregate taxable profits from UK and outside of the UK. The rearrangement provide:

$$TaxP_{uk} = TaxP - TaxP_{os} \quad (6)$$

The equation (6) is substituted into equation (5) and it provides:

$$CTE = [(TaxP - TaxP_{os}) \times STR_{uk}] + (TaxP_{os} \times STR_{os}) \quad (7)$$
$$CTE = TaxP \times STR_{uk} - TaxP_{os} \times STR_{uk} + TaxP_{os} \times STR_{os}$$
$$CTE = TaxP \times STR_{uk} - TaxP_{os} (STR_{uk} - STR_{os})$$

Equation (7) is rearrange in order to arrive at taxable profits; it provides

$$TaxP \times STR_{uk} = CTE + TaxP_{os}\ STR_{uk} - TaxP_{os}\ STR_{os}$$
$$TaxP \times STR_{uk} = CTE - TaxP_{os}(STR_{os} - STR_{uk})$$

Therefore,

$$TaxP = [CTE - TaxP_{os}(STR_{os} - STR_{uk})] / STR_{uk} \quad (8)$$

Thus in order to obtain estimated BTD, the equation (8) is substituted into equation (2), which it provides:

$$BTD = PBT - [CTE - TaxP_{os}(STR_{os} - STR_{uk})] / STR_{uk}$$

Therefore BTD is

$$BTD = PBT - CTE/STR_{uk} + [TaxP_{os}(STR_{os} - STR_{uk}) / STR_{uk}] \quad (9)$$

In the equation (9), the third item of BTD i.e. the numerator represents the effect of tax rate differential between UK and overseas tax rate on the taxable profit ($TaxP_{os}$) from overseas. This is referred as statutory tax rate differences (STRD) in this study. Thus,

$$STRD = TaxP_{os}(STR_{os} - STR_{uk}) \quad (10)$$

Next the BTD is disaggregated into temporary differences (TD) and permanent differences (PD)

$$\text{Total estimated BTD} = PD + TD \quad (11)$$

The TD is measured by:

$TD = DTE^{15}/STR_{uk}$ (12)

Where

DTE = deferred tax expenses
Therefore, by substituting equation (12) into (11), thus:

$PD = BTD – TD$ (13)

Both positive TD and PD represent lower taxable profit relative to the accounting profit.

[15] DTE is available in the tax notes of the financial statement

4.3.2 Independent Variables: Corporate Social Responsibility (CSR) practices

The performance of CSR practices is always weighted by its implications towards its relevant stakeholders (Wood 2010). Therefore, the appropriate disclosure and publication of CSR performance is very important in order to make sure that the stakeholders are well-informed of the company's commitment to CSR (Wood 2010). In addition, Pérez, Martínez, & Rodríguez del Bosque (2013) found that CSR performance is measured by dividing the CSR activities into the major stakeholders' demand called CSR dimensions or components. This is in line with the definition of CSR for businesses by (Dahlsrud 2008)In a review of the empirical studies done on CSR, Wood (2010) concluded that scholars have employed different data sources and different methods of measurement to assess the CSR dimensions or components. The widely-used sources of data and measurements for CSR are separate CSR reports or stand-alone CSR reports, the firm's annual reports and the external CSR performance ratings such as that by Morgan Stanley Capital International (MSCI)[16] Statistics or Asset4 ESG ratings (Dhaliwal et al. 2011; Wood 2010).

Various reports including external ratings are used as proxies to assess the company's CSR performance. Dhaliwal et al. (2011) asserted that besides external ratings, which are used as proxies of CSR performance, companies are increasingly willing to issue stand-alone CSR reports to present as an extra commitment to CSR. In the event where external ratings are not relevant to the research objectives, the scholars used information disclosed in the annual financial reports to weigh CSR. For example, in examining the behaviour of aggressive tax planning in perceived socially-responsible companies in Australia, Lanis and Richardson (2012) initiated self-constructed CSR indices as a proxy of CSR performance by extracting the CSR disclosures from the annual reports. There are studies that have used mixed measurement of CSR by combining several CSR proxies such as in the study done by Davis et al (2016).

[16] Formerly known as Kinder, Lydenberg, Domini and Company, Inc. (KLD)

The reports relating to CSR - either by stand-alone CSR report, annual reports or CSR external ratings - are publicly available to both the internal and external stakeholders. Despite the similarities in term of availability, each type of report serves a different coverage and capacity when it comes to informing of CSR performance (Wood 2010). Most of the studies ((Davis et al. 2016; Watson 2011; Keung Hoi et al. 2013; Attig et al. 2013; Ntim & Soobaroyen 2013) conducted in the CSR area employed external ratings to reflect on the CSR activities or performances of the company. This is due to the quality of the external ratings relating to CSR having been recognised as being timely in relation to accessibility (Wood 2010), comparable and transparent to the stakeholders (Collison et al. 2009; Chatterji et al. 2009). Wood (2010) also emphasised that third party ratings are better in assessing and expressing the nature of CSR activities in the organisation.

Based on the quality and availability of the external ratings reports about CSR, this study chose external ratings to measure CSR performance. In the UK, external ratings for CSR performance are FTSE4Good provided by FTSE Russell Group[17] and the ASSET4 ESG databases provided by Thompson Reuters[18] available on DataStream. The ASSET4 ESG ratings cover the time series data for Economic, Social and Governance (ESG) for widely active equity in many countries including the UK. ASSET4 ESG has been chosen rather than the FTSE4Good ESG Ratings because FTSE4Good just covers the top equity companies. As the sample selected for this study is the non-financial companies listed on the London Stock Exchange, ASSET4 ESG Ratings is more suitable.

Moreover, as external ratings, ASSET4 provides a standard and uniform measurement on each dimension of CSR. These qualities allows for the CSR performance among the sample companies to be compared to each other easily. External ratings as ASSET4 also

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[17] Available at http://www.ftse.com/products/indices/FTSE4Good# assessed on 30 January, 2006.
[18] Available at http://extranet.datastream.com/data/ASSET4%20ESG/Index.htm assessed on 30 January, 2006.

assist in minimising the variations of CSR performance based on disclosure practices amongst the sample companies (Holland et al. 2013). Besides uniformity and standardization, the external ratings have been employed in this study to avoid self-selection bias (Lanis & Richardson 2012). In addition, the external ratings could be used to reflect on the CSR performance of a given company because socially-responsible indices rely on voluntary disclosure by the company (Aguilera, Williams, Conley & Rupp, 2006).

There are four pillars of CSR as measured by ASSET4 ESG ratings, which are represented by 4 pillars (dimensions); economic, environmental, social and corporate governance performance. The ASSET4 ESG Ratings reports the CSR performance based on CSR's multiple dimensions to cater to the multiple stakeholders' demand. This characteristic matches the stakeholder's instrumental approach towards CSR, which reflects on the various stakeholders of the company.

This study will however exclude the corporate governance dimensions from ASSET4 ESG ratings because it is considered as separate domain to CSR activities (Dahlsrud 2008; Huseynov & Klamm 2012; Davis et al. 2016). The corporate governance dimension then has been chosen as control variable in for the first and second research questions, and consequently as moderating variable to answer the third research question.

Based on the main dimensions of CSR frameworks as discussed in Section 3.2 and 3.3 previously, and the CSR frameworks provided by the ASSET4 ESG external ratings, the initial model for CSR will be as below:

Details of calculations	Eq
$CSR_{it} = ECON_{it} + ENV_{it} + SOCL_{it}$	(14)

Where,

CSR is corporate social responsibility performance

ECON is economic performance dimension

ENV is environmental performance dimension

SOCL is social performance dimension

Each dimension is represented by several key performance indicators.

Economic dimension (ECON)

There are three performance indicators for economic dimension: performance, shareholders' loyalty and client loyalty.

$$ECON_{it} = ECPE_{it} + ECSL_{it} + ECCL_{it} \quad (15)$$

Where,

ECPE is performance component score

ECSL is shareholders' loyalty component score

ECCL is client's loyalty component score

Environmental dimension (ENV)

There are three performance indicators (component) for environment dimension: emission reduction, product innovation and resource reduction.

$$ENV_{it} = ENER_{it} + ENPI_{it} + ENRR_{it} \quad (16)$$

Where,

ENER is emission reduction component score

ENPI is product innovation component score

ENRR is resource reduction component score

Social dimension (SOCL)

There are seven performance indicators (components) for social dimension: product responsibility, community, human rights, diversity, employment quality, health and safety as well as training and development.

$$SOCL_{it} = SOPR_{it} + SOCO_{it} + SOHR_{it} + SODO_{it} + SOEQ_{it} + SOHS_{it} + SOTD_{it} \quad (17)$$

Where,

SOPR is product responsibility component score

SOCO is community component score

SOHR is human rights component score

SODO is diversity component score

SOEQ is employment quality score

SOHS is health and safety component score

SOTD is training and development component score

Therefore, by substituting equations (2), (3), and (4) in equation (1), the detail model for CSR will be as follow:

$$CSR_{it} = ECPE_{it} + ECSL_{it} + ECCL_{it} + ENER_{it} + ENPI_{it} + ENRR_{it} + SOPR_{it} + SOCO_{it} + SOHR_{it} + SODO_{it} + SOEQ_{it} + SOHS_{it} + SOTD_{it} + \quad (18)$$

Thus the aggregate CSR for each company are the functions of average of the three main dimensions, labelled as equation 19

$$TOTCSR_i = \sum_{t=1}^{ni} X_{\mathrm{i}} \Big/ ni$$

Where,

TOTCSR = the overall CSR performance for *i*th company

ni = the number of CSR dimensions for the *i*th company

Xi = the percentage of performance score of each dimension.

4.3.3 Control variables / Moderating variables and companies' specific characteristics

As mentioned previously, corporate governance has been taken as control variable and subsequently as moderating variable to answer the third research question whether the corporate governance moderate the relationship between CSR and the extent of tax planning.

In addition, companies specific characteristics (CSC) used in this study are market value, the size of capital expenditure, return on assets, operating profit margin, leverage and size of the companies.

4.3.3.1 Market value (MV)

Market value (MV) refers to the highest estimated price that a buyer would pay and a seller would accept in the competitive market. In a public trade company, it means that market capitalisation reflects on the size of the wealth of a company and its shareholders. In this study, market value represents the multiplication of share price over book value of the shareholders' equity, namely the market to book ratio.

4.3.3.2 Capital Expenditure availability (CAPEX)

Capital expenditure (CAPEX) represents the intensity and the affordability of companies to engage into tax planning that involve high capital investment (Lanis & Richardson 2012)

4.3.3.3 Size

Size is always used to control for size effects. Usually size is measured using natural log of total assets. Large size companies are likely to be more tax aggressive than small companies (Lanis & Richardson 2012; Davis et al. 2016).

4.3.3.4 Return on Assets (ROA)

Returns on assets (ROA) is measured as the ratio of profit after tax over total assets of the company. It is expected that companies with high level of tax planning are having higher percentage of ROA.

4.3.3.5 Margin

Margin is measured as a ratio of operating profits over total sales. High margin is anticipates the lower level of tax planning as companies might not depends on tax savings to increase their post-tax return.

4.3.3.6 Leverage

Leverage represents the financing ratio in the capital structure. It shows how much a company depends on external funds in financing their assets compared to internal funds or accumulated earnings. Higher leverage infers a higher the obligation that a company might have towards an external fund provider.

4.3.3.7 Type of Industry

It is expected type of industry could influence the level of tax planning activities due the different favourable tax treatments available for the companies.

4.4 List of all variables

Table 4-1 presents the summary of variables and its measurements

Table 4-1: Summary of Variables and Measurements

Variables	Definition	Measurement
Tax planning measures		
BTD	Book tax differences	Total differences between GAAP accounting profit and taxable income
PD	Permanent differences	Permanent differences reconciliation items
TD	Timing or temporary differences	Timing or temporary difference reconciliation items
STRD	Standard rate differences	Total tax differences of overseas income to local tax rate
corporate social responsibility measures		
TOTCSR	Corporate social responsibility	The performance of overall CSR by using
ECON	Economic dimension performance	Percentage score of economic dimension
ENV	Environmental dimension performance	Percentage score of environmental dimension
SOCL	Social dimension performance	Percentage score of social dimension
ECPE	Financial performance	Percentage score of financial components

Variables	Definition	Measurement
	component in economic dimension	
ECSL	Shareholders’ loyalty component performance in economic dimension	Percentage score of shareholders’ loyalty component
ECCL	Clients’ loyalty component performance in economic dimension	Percentage score of clients’ loyalty component
ENER	Emission reduction component performance in environmental dimension	Percentage score of emission reduction component
ENPI	Product innovation component performance in environmental dimension	Percentage score of product innovation component
ENRR	Resource reduction component performance in environmental dimension	Percentage score of resource reduction component
SOPR	Product responsibility component performance in social dimension	Percentage score of product responsibility component
SOCO	Community component performance in social dimension	Percentage score of community component
SOHR	Human Rights component performance in social dimension	Percentage score of Human Rights component
SODO	Diversity component performance in social dimension	Percentage score of diversity component
SOEQ	Employment quality component performance in	Percentage score of employment quality

Variables	Definition	Measurement
	social dimension	component
SOHS	Health and safely component performance in social dimension	Percentage score of health and safety component
SOTD	Training and development component performance in social dimension	Percentage score of training and development score
CORPORATE GOVERNANCE MEASURES		
CORPGV	Corporate governance dimension performance	The performance of overall Corporate Governance using ASSET4 ESG Ratings
CGBF	Board function component in corporate governance dimension	Percentage score of board function component
CGBS	Board structure component performance in corporate governance dimension / Leadership style (dual leadership)	Percentage score of board structure component
CGCP	Compensation policy component performance in corporate governance dimension	Percentage score of compensation policy component
CGVS	Integration of vision and mission policy component in corporate governance dimension	Percentage score of vision and policy component
CGSR	Shareholders' right component in corporate governance dimension	Percentage score of shareholders' right component

Variables	Definition	Measurement
Companies Specific Characteristics (CSC)		
CSC	Business specific characteristic	Type of industry, research and expenditure, leverage, market value of equity, advertising expenses.
MV	Market value	market to book ratio
		market capitalisation/ Book value of total shareholders' equity
CAPEXTA	Ratio of capital expenditure per total assets	Percentage of capital expenditure over total assets
		Capital expenditure/ Last year's total assets x 100
CAPEXTS	Ratio of capital expenditure per total sales	Percentage of capital expenditure over total sales
		Capital expenditure /Net sales or revenues x 100
NSALES	Net sales or revenues	gross sales and other operating revenues – (discounts, returns, expenses and allowances)
INTSALES	International sales	Sales generated from operations in foreign countries
SIZE	Total assets	Sum of total current assets, long term receivables, investments, and net of property, plant and equipment as well as other assets.
LTDEBT	Long term debts	All interest bearing financial obligations, excluding amount due within one year
SNDEXP	Selling, administration and general expenses	Expenses directly attributable to the production process relating to selling,

Variables	Definition	Measurement
		general and administration functions, including marketing expenses.
SNDPERSAL	Ratio of selling, administration and general expenses per sales	Selling, general and administration expenses (excluding research and development) /Net sales or revenues x100
ROA	return on assets	Net income after tax/ Average of last year's total assets and current year's total assets x 100
MARGIN	Operating profit margin	Operating income/Net sales x 100
LEVERAGE	Ratio of long term debts per total assets	Long term debts/Total assets x 100

4.5 Model specifications, regression models and hypotheses testing

After the descriptive analysis, in order to test the hypotheses as discussed in Chapter 3 the multivariate regression model were developed. As the independent variables and the dependent variable are in interval and continuous scale, the ordinary least square (OLS) or multiple linear regression (MLR) is suitable for regression model (Hair et al. 2014). Based on the research question and the hypotheses, the following models are developed.

4.5.1 The relationship between CSR and the extent (components) of tax planning

Based on the Figure 1-1 there are four models developed to investigate the association between CSR and the extent of tax planning. In these models, the dependent variables to represent the extent of tax planning are the BTD, PD, TD and STRD, while the independent variable is TOTCSR that represents the aggregate score of CSR performance. The control variable is CORPGOV for corporate governance, and the companies' specific characteristic (CSC) as discussed in Section 4.3.3 previously. Table

4-2 presents the regressions model to address hypotheses 1a and 1b as well as hypothesis 1a (1) to hypothesis 1a(3).

Table 4-2: The regression models for the relationship between CSR and the extent of tax planning

Model	Regression models	Hypotheses
1.	$BTD_{it} = \beta + \beta_1 TOTCSR_{it} + \beta_2 CORPGOV_{it} + \sum_{6}^{n} \beta_8 \, CSC_{it} + \varepsilon_{it}$	(H1a) and (H1b)
2.	$PD_{it} = \beta + \beta_1 TOTCSR_{it} + \beta_2 CORPGOV_{it} + \sum_{6}^{n} \beta_8 \, CSC_{it} + \varepsilon_{it}$	(H1a (1))
3.	$TD_{it} = \beta + \beta_1 TOTCSR_{it} + \beta_2 CORPGOV_{it} + \sum_{6}^{n} \beta_8 \, CSC_{it} + \varepsilon_{it}$	(H1a (2))
4.	$STRD_{it} = \beta + \beta_1 TOTCSR_{it} + \beta_2 CORPGOV_{it} + \sum_{6}^{n} \beta_8 \, CSC_{it} + \varepsilon_{it}$	(H1a (3))

4.5.2 The relationship between the extent of tax planning and the CSR

The fifth regression model is developed to test hypotheses 2. This model is developed to investigate whether CSR is taken as strategic tool as a result of the tax planning activities in the previous years. However, this model execution is depended on the results from model 1. If CSR is found positively related to BTD, then this model will be tested. This is to investigate the extent of strategic actions by the companies.

The dependent variable for this model is total CSR activities (TOTCSR) and the independent variable of this model is the extent of tax planning in the previous years (lagBTD). The control variables remain the same as previous models.

Model	Regression Model	Hypothesis
5.	$TOTCSR_{it} = \beta + \beta_1 lagBTD_{it} + CORPGOV_{it} + \sum_{6}^{n} \beta_8\, CSC_{it} + \varepsilon_{it}$	H2

4.5.3 **The relationship between CSR dimensions and the extent of tax planning**

Table 4-3 presents are two regression models developed to investigate the relationship between CSR dimensions and the extent of tax planning.

For regression model 6, the dependent variable used to be the proxy for the extent of tax planning is BTD. The independent variables consist of CSR dimensions which are economic dimensions performance (ECON), environmental dimension performance (ENV) and social dimensions performance (SOCL). The control variables remain the same as the first model. The sixth model developed to test hypothesis 3a (H3a) to hypothesis 3c (H3c) as explained in Section 3.2 previously.

For the seventh model, the dependent variable remains as in sixth regression model, but the independent variables consists of components of each dimensions of CSR dimensions mentioned above. The control variables are similar to the first model.

Table 4-3: The regression models for the relationship between CSR dimensions and the extent of tax planning

Model	Regression models	Hypotheses
6.	$BTD_{it} = \beta + \beta_1 ECONit + \beta_2 ENV_{it} + \beta_3 SOPCL_{it} + \beta_4 CORPGOV_{it} + \sum_{6}^{n} \beta_{10}\, CSC_{it} + \varepsilon_{it}$	(H3a - H3c)

7. $$BTD_{it} = \beta + \beta_2 ECPE_{it} + \beta_2 ECSL_{it} + \beta_3 ECCL_{it} + \beta_4 ENER_{it} + \beta_5 ENPI_{it} + \beta_6 ENRR_{it} + \beta_7 SOPR_{it} + \beta_8 SOCO_{it} + \beta_9 SOHR_{it} + \beta_{10} SODO_{it} + \beta_{11} SOEQ_{it} + \beta_{12} SOHS_{it} + \beta_{13} SOTD_{it} + \beta_{14} CORPGOV_{it} + \sum_{6}^{n} \beta_{20}\, CSC_{it} + \varepsilon_{it}$$

Could not be tested

7(a) $$TD_{it} = \beta + \beta_2 ECPE_{it} + \beta_2 ECSL_{it} + \beta_3 ECCL_{it} + \beta_4 ENER_{it} + \beta_5 ENPI_{it} + \beta_6 ENRR_{it} + \beta_7 SOPR_{it} + \beta_8 SOCO_{it} + \beta_9 SOHR_{it} + \beta_{10} SODO_{it} + \beta_{11} SOEQ_{it} + \beta_{12} SOHS_{it} + \beta_{13} SOTD_{it} + \beta_{14} CORPGOV_{it} + \sum_{6}^{n} \beta_{20}\, CSC_{it} + \varepsilon_{it}$$

Could not be tested

4.5.4 The moderating effect of corporate governance on the relationship between CSR and the extent of tax planning

The eighth model is developed to examine the moderating effect of corporate governance on the relationship between CSR and the extent of tax planning. This is carried out by multiplying the score of corporate governance performance (CORPGOV) with the score of total CSR performance (TOTCSR) to obtain the score of moderating variable, (CORPCOV*TOTCSR). The dependent variable is still the BTD, the independent variable is the total CSR performance (TOTCSR), the moderating variable is the interaction between corporate governance and CSR (CORPGOV*CSR) and the control variables remains the same like previous models. This regression model is developed to test hypothesis 4 as discussed in Section 3.2.

Model	Regression model	Hypothesis
8.	$BTD_{it} = \beta + \beta_1 TOTCSR_{it} + \beta_2 CORPGOV * CSR_{it} + \beta_3 CORPGOV_{it} + \sum_{6}^{n} \beta_9\, CSC_{it} + \varepsilon_{it}$	H4
8(a)	$BTD_{it} = \beta + \beta_1 TOTCSR_{it} + \beta_2 CORPGOV * CSR_{it} + \beta_3 CORPGOV_{it} + \sum_{6}^{n} \beta_9\, CSC_{it} + \varepsilon_{it}$	
8 (b)	$PD_{it} = \beta + \beta_1 ECONit + \beta_2 ENV_{it} + \beta_3 SOPCL_{it} + \beta_4 CORPGOV_{it} \beta_2 CORPGOV * CSR_{it} + \sum_{6}^{n} \beta_{10}\, CSC_{it} + \varepsilon_{it}$	

4.6 Chapter Summary

There are eight regression models developed in this chapter in order to test the hypotheses developed in Chapter 3. The first regression model is developed to test hypothesis 1a and 1b, the second, third and fourth regression model have been developed to test hypothesis 1a (1) to hypothesis 1a (3) accordingly. The fifth regression model is for the purpose of testing the hypothesis 2. The sixth and seventh regression models are purposely for the hypothesis 3 and its range. The last regression model is for the purpose of testing hypothesis 4. Data analysis has been carried out using by STATA statistical software 13.0.

The summary of the matched regression model and the hypotheses are as in Table 4-4 below:

Table 4-4: Regression models, Hypotheses and Tax Planning Proxy

No.	Regression model		Hypotheses references and statements	Measurement for TP
1.	Model 1	H1a & H1b	There is a negative relationship between CSR and the extent of tax planning in non-financial companies quoted on LSE	BTDs
2.	Model 2	H1a(1)	There is a negative relationship between CSR and the extent of tax saving from permanent differences in non-financial companies quoted on LSE	PD
3.	Model3	H1a(2)	There is a negative relationship between CSR and the extent of temporary differences in non-financial companies quoted on LSE	TD
4.	Model 4	H1a(3)	There is a negative relationship between CSR and the extent of tax saving from statutory tax rate differences in non-financial companies quoted on LSE	STRD
5.	Model 5	H2	There is a positive relationship between previous year's extent of tax planning and CSR in non-financial companies quoted on LSE	BTD
6.	Model 6	H3a	There is an association between economic dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD
7.	Model 6	H3b	There is a relationship between environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD
8.	Model 6	H3c	There is a relationship between social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD

No.	Regression model	Hypotheses references and statements	Measurement for TP
9.	Model 7	There is a relationship between ECPE in economic dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD
10.	Model 7	There is relationship between ECSL in economic dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD
11.	Model 7	There is a relationship between ECCL in economic dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE. and the extent of tax planning in non-financial companies quoted on LSE.	BTD
12.	Model 7	There is a relationship between ENER in environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
13.	Model 7	There is a relationship between ENPI in environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
14.	Model 7	There is a relationship between ENRR in environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
15.	Model 6	There is a relationship between SOPR in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
16.	Model 7	There is a relationship between SOCO in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
17.	Model 7	There is a relationship between SOHR in social dimension of CSR and the extent of tax planning in non-financial companies quoted	BTD

No.	Regression model		Hypotheses references and statements	Measurement for TP
			on LSE	
18.	Model 7		There is a relationship between SODO in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
19.	Model 7		There is a relationship between SOEQ in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
20.	Model 7		There is a relationship between SOHS in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
21.	Model 7		There is a relationship between SOTD in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD
22.	Model 8	H4	The relationships between CSR and the extent of tax planning are moderated by companies' corporate governance in non-financial companies quoted on LSE.	BTD

5. Data Analyses and Findings

5.1 Introduction

The preliminary analysis are performed for the purpose of fulfilling multivariate linear regression (Hair et al. 2014; Field 2014). Preliminary analysis includes evaluating the descriptive statistics of the variables, data transformation and normality distribution. This chapter also presents of the evaluation and reconciliation of sample to arrive at the final total sample. At last, this chapter presents summary of multicollinearity and the result of model fitness tests (R-squared).

5.2 Sample evaluations and reconciliation

This study extended the tax data collection from previous study done by Abdul Wahab and Holland (2010). As tax planning regarded as dependent variable in determining the between CSR and tax planning, the sample frame is based on availability of tax data before CSR data are taken into consideration.

Chronologically, the tax data available from (Abdul Wahab & Holland 2014) was from year 2005 to year 2010. Then the data are collected for another two years (2011 to 2012) by another study which has not been published[19]. This study then continues the tax data collection from year 2013 to 2014. This make up the sample frame to 10 years of tax data from year 2005 to 201. Table 5-1 below presents the sample reconciliation of this study.

Only non-financial public quoted companies listed on LSE are selected to avoid complex variations in financial reporting regulations (Abdul Wahab and Holland, 2014). The sample continued was free from extreme Effective tax rates (ETRs) to control for measurement error as a result of non-recurring items such as business decompositions

[19] Phd dissertation by Rahma Addeh, University of Southampton.

and impairment of assets (Abdul Wahab and Holland, 2014; Laguir, Stagliano and Elbaz, 2015).

From originally 210 companies with the potential of 2100 companies-year observations, about 50 of the non-financial companies in the sample frame were delisted by LSE in either 2013 or 2014. As this study focus on non-financial companies quoted on London Stock Exchange (LSE), these 50 delisted companies were excluded from the sample frame.

Next, companies which suffer unavailability of at least one annual report either in year 2013 or 2014 were eliminated. The unavailability of one year annual reports would mean non-availability of at least one year tax data. As a result, 9 companies were dropped from the sample.

Lastly, the available sample frame had been matched to CSR data collected. There were 75 companies excluded from the sample frame as a result of unavailability of at least one year of CSR data. This exclusion left the total sample of this study to be 76 non-financial companies quoted on LSE with 760 companies-year observation.

Table 5-1: Sample Reconciliation

Details	Sample	Observations
Total sample from non-financial public listed companies (2005 to 2010)	210	1,260
Potential total samples and observations up to 2014	210	2,100
Delisted from LSE	(50)	(500)
At least one year of annual report is not available	(9)	(90)
At least one year of CSR data is not available	(75)	(750)
	76	760

5.3 Industry Classifications

The sample frame was classified into 24 types of industries using LSE’s industry classification as presented in Table 5-2 below.

The highest total of companies in the sample frame is from support services industry which consist of about 20 percent of the total observation followed by travel and leisure industry, which is 10 percent and 7 percent from chemical and food producers industries accordingly. Other industries consist of small representatives. This industry specification show unbalanced distribution of sample from each industry. Thus the industry’s specification was reclassified according to FTSE’s industry classification.

The reclassification resulted to seven types of industries. In the FTSE’s classification, about 35 percent of the samples are from industrial industries, 24 percent are from consumer goods, about 23 percent are from consumer services, 9 percent from basic materials and 2.5 percent from oil industry and others.

Table 5-2: Industry Classifications based on LSE and FTSE

LSE's Industry Classification	No of companies	No of observation	Percentage	FTSE's industry classification	No of companies	No of observation	Percentage
Oil and gas producers	1	10	1.37				
Oil equipment services and distribution	1	10	1.37	oil and gas	2	20	2.74
chemicals	5	50	6.31				
mining	2	20	2.74	Basic materials	7	70	9.05
Aerospace and Defend	2	20	2.47				
Construction and materials	1	10	1.37				
Electronic and electrical equipment	3	30	4.12				
general industries	4	40	5.35				
Industrial engineering	1	10	1.37				
support services	15	150	19.89	Industrials	26	260	34.57
Automobiles and parts	1	10	1.23				
beverages	7	70	9.19				
Food producers	5	50	5.9				
household goods	2	20	2.74				
personal goods	1	10	1.37				
tobacco	2	20	2.74	Consumer goods	18	180	23.18
Pharmaceuticals biotechnology	2	20	2.74				
Foods and drug retailer	2	20	2.74	Healthcare	4	40	5.49
general retailers	5	50	6.58				
media	5	50	6.31				
Travel and leisure	7	70	9.6	Consumer services	17	170	22.50
Gas, water and multiutility	1	10	1.1				
Software and computer service	1	10	1.37	Others	2	20	2.47
Total	76	760	100	Total	76	760	100

5.4 Descriptive Statistics for Dependent Variable: Tax data

The descriptive statistics for tax data was performed to examine the central distributions of the dependent variable of this study.

Table 5-3: Descriptive statistic for DV (BTD, PD, TD and STRD)

Variable	Obs	Mean	Std. Dev	Median	Min	Max
BTD	760	-16508.34	344982.4	1613.62	-3740587	2209031
PD	760	-9137.546	313847.2	-1907.31	-2848797	4322660
TD	760	-8015.792	247223.8	2855.37	-2339571	1707979
STRD	760	12973.94	186085.5	5847.01	-872592.9	2415856

Table 5-3 presents the descriptive statistics for the dependent variables, namely BTD , PD, TD and STRD. All of the dependent variables are having negative means except for STRD. However, the median shows small positive value for BTD, TD and STRD. The range between the maximum value and minimum value are relatively big for all the dependent variable.

Because of the big range between maximum and minimum value of the dependent variables, the fraction of positive and negative mean for all the variable is performed. The result is presented in the Table 5-4 below.

Table 5-4 shows that there are 400 observation or 52.63% of the observations consists of positive value of BTD, 310 observations or 40.78% of the observations consist of positive value of PD, 445 observations or 58.55% of the observations consist of positive value of TD and 280 or 280 observations or 36.84 % of the observations consist of positive value of STRD.

Table 5-4: The Fraction of positive and negative in BTD components

Variable	Obs	Observations with positive value		Observation with negative value	
		No. of Obs	Percentage (%)	No. of Obs	Percentage (%)
BTD	760	404	52.63	360	47.37
PD	760	310	40.78	440	59.00
TD	760	445	58.55	315	41.45
STRD	760	280	36.84	480	63.16

Since the main scale of measurement of the extent of BTD that represents the risks of tax planning activities is BTD, only observations with positive value of BTD are chosen for subsequent analysis (Keung Hoi et al. 2013). Positive BTD shows a sign of risks that companies are engaging in tax planning activities (Hanlon 2003; Abdul Wahab & Holland 2014; Lanis & Rischardson 2015) where, their the taxable profits are less than accounting profit. This is in line with Blaylock et al. (2012) where the observations with positive and negative value are separated to suit the meaning of the extent of tax planning. In addition, Lanis & Rischardson (2015) which chose only companies having tax disputes as a proxy for aggressive tax planning activities found that tax disputes are related to low effective tax rates (ETR), which implied positive value of BTD.

The exclusion of negative observation provides the results of the descriptive analysis as per Table 5-5 below:

Table 5-5: Number of Observations with positive BTD

Variable	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
BTD	404	103385.9	222177.6	0	2209031	4.6238	32.5603
PD	404	57051.37	308710	-1270928	4322660	7.7931	99.2589
TD	404	45121.21	229750.1	-2113629	1707979	-0.6363	41.1475
STRD	404	29741.19	224868.7	-872592.9	2415856	7.9016	77.33371

As shown in the Table 5-5 above, only 404 observations are retained for subsequent regression analyses. All the dependent variables are positively skewed except for TD, which have acceptable skewness ±3(Kline 2005). However there high level of kurtosis for all the variables which is more than ±10 (Kline 2005). Therefore, the data for the dependent variables are transformed to achieve acceptable skewness and kurtosis.

Since this study investigates the extent or the level of risks of tax planning, BTDs have been analysed using natural logarithm of the actual amount to represents the different level of tax planning activities. These techniques were also applied to BTDs components i.e. Permanent differences (PD), temporary differences and statutory tax rate differences (STRDs).

Before transforming the data into natural logarithm which is well known function for data transformation (Field 2014), the data with negative values are transformed to positive values i.e. by certain amount above the maximum value less the original value. This technique would change the interpretation of the value of the variables. Therefore, for PD, TD and STRD, lower value represents higher level of tax planning activities.

Next, all the values of the dependent variables are transformed into natural logarithm to achieve improvement in normality distribution, so that the data could be analysed using simple regression like Ordinary Least Square (OLS).

The results are presented in the Table 5-6 below:

Table 5-6: The Central distribution, Skewness and Kurtosis for DV

Variable	Obs	Mean	Std. Dev	Min	Max	skewness	kurtosis
logbtd	400	10.21089	1.745055	3.709741	14.60806	-0.25397	3.656147
logpd2	404	15.40952	0.1109096	13.42593	15.65143	-14.6238	256.1493
logtd2	404	14.47616	0.1625861	12.58458	15.22982	-7.48139	89.07496
logstrd2	404	14.7068	0.2265635	11.34028	15.03119	-11.6162	150.8776

Based on Table 5-6 above, the skewness and kurtosis for logBTD has been improved to normal which is ±3 and ±10 (Kline 2005). Therefore, regression analyses which involved BTD as the dependent variable are performed by using OLS i.e. model 1, 6, 7 and 8 as in the Chapter 4). However, the skewness and kurtosis for logPD, logTD and logSTRD are still high values despite the transformation. As a result, quantile regression analysis are employed to examine the relationship between CSR and other dependent variables, PD, TD and STRD i.e. Model 2,3 and 4. Quantile regression is preferable for highly skewed data to avoid measurement bias (Field 2014).

A series of trials and errors (as suggested by Hair et al. (2014)) of quantile regression are performed between CSR and PD, TD and STRD in order to measure the improvement and the fitness of the models. Throughout the procedures, the R-squared and Pseudo R^2 are compared between the regression models. As Pseudo R^2 is higher than R-squared, thus quantile regression is employed for Model 2, 3 and 4.

5.5 Descriptive Statistics for Independent Variable (IV): CSR and its components.

Table 5-7 displays the descriptive analysis for the independent variables i.e. CSR and its components. Total CSR, its dimensions and components are measured using the percentage score. All of the score show mean of more than 50% which are considered high performance of CSR activities practices by the companies.

Table 5-7: Descriptive analyses for independent variable (IV)

Variable	Obs	Mean	Std. Dev.	Min (%)	Max (%)
TOTCSR	404	63.58	22.025	13.15	97.36
ECON	404	61.03	26.92133	2.26	99.04
ENV	404	64.57	25.58041	11.17	96.7
SOCL	404	65.15	23.24815	8.28	98.04

Variable	Obs	Mean	Std. Dev.	Min (%)	Max (%)
Economic dimension					
ECPE	404	70.24	24.42509	4.11	98.95
ECSL	404	43.31	28.36561	1.11	98.11
ECCL	404	59.41	29.67223	1.73	97.7
Environmental dimension					
ENER	404	65.22	25.84288	10.1	97.48
ENPI	404	54.28	29.84337	8.34	99.36
ENRR	404	66.28	24.79478	9.59	96.24
Social dimension					
SOPR	404	49.68	31.22145	3.04	98.99
SOCO	404	63.59	25.87714	4.01	97.19
SOHR	404	60.18	30.8111	15.7	99.67
SODO	404	57.15	25.88801	8.09	98.15
SOEQ	404	58.78	28.91541	2.91	98.09
SOHS	390	66.06	23.5078	9.45	99.03
SOTD	403	64.82	25.01534	6.52	95.76

5.6 Descriptive statistics for control variables

Table 5-8: Descriptive statistics for control variables

Variable	Obs	Mean	Std. Dev.	Min	Max
MV	404	4283.811	8980.495	92.95	50485.63
CAPEXTA	402	5.313408	4.950128	0.01	37.64
TA	404	4170447	8708956	82705	84800000
ROA	402	10.26119	7.806949	-32.03	75.09
MARGIN	404	14.72458	12.55647	-34.05	72.1
LEV	404	17.28322	15.66792	0	127.4473
SIZE (LOGTA)	404	14.2603	1.300192	11.32304	18.25622
INDUSTRY type	404				

Table 5-8 presents the statistics for the control variables of this study. The mean values of the LOGTA or total assets (TA) shows that all of the companies in the sample frame are big in size with approximately 4 billion of total assets. The sample frame consists of profitable companies based on the mean values of return on assets (ROA) and the operating profit margin (MARGIN). The high mean values of market value (MV) shows that the companies are active in trading shares, therefore well-known to shareholders. This infers that the shareholders hold a big influence over companies' activities The sample frame also have moderate dependency on outside funds as shown by the leverage (LEV) suggesting that the influence of borrowers over the companies is not very significant.

5.7 Multicollinearity and the probability of fitness

Table 5-9: Multicollinearity and R-squares

Regression model	VIF	R-square/pseudo R2
Model 1	1.97	0.5770
Model 2	2.77	0.2058
Model 3	1.97	0.2543
Model 4	1.97	0.1146
Model 5	1.62	0.5715
Model 6	2.15	0.5787
Model 7	1.89	0.6100
Model 7(a)	1.79	0.3854
Model 8	8.46	0.5791
Model 8(a)	7.65	0.3616
Model 8(b)	3.97	0.3678

Table 5-9 presents the summary of multicollinearity tests and the fitness score of each model. There are 8 models developed and analysed in this study. The amount of VIF shown in all models are less than 0.10 as corresponded to the value of 10, which is generally accepted (Hair et al. 2014), therefore all the models have no collinearity problem.

In addition, R-squares or Pseudo R^2 are defined a [0,1] scale. With 0 indicating that the explanatory variables failed to increase likelihood and 1 indicating that the model perfectly predicts each outcome. The Pseudo R^2 for quantile regression resembles the R-squared in normal regression (Baum, 2006).

5.8 Regressions results

This section presents the main findings of the study to investigate the association or the relationship of CSR to the extent of tax planning in publicly quoted companies listed on LSE.

Then, this chapter proceeds with hypothesis testing pertaining to each possible relationship for the purpose of answering the four research questions set in Section 1 of this thesis: (1) Do companies' attitudes to CSR relate to their attitudes to tax planning?; (2) Do the companies' attitudes to different dimensions of CSR relate to their attitudes to tax planning?; and (3) Do corporate governance attributes moderate the relationship between CSR and the level of tax planning?. The fourth research question deals with the possible adverse relationship between the extent of tax planning and CSR performance. This hypothesis is tested for the purpose of investigating whether CSR is a strategic tool to manage threats as a result of aggressive tax planning.

5.8.1 The relationship between CSR (TOTCSR) and the extent of tax planning (btd, pd, td and strd)

As mentioned in section 4.2, there were four regression models tested to answer Hypothesis 1 (H1) and the first research question. The hypotheses tested are:

Hypothesis 1 (H1a): According to stakeholder theory, if the CSR is practised altruistically, the relationship of CSR and the extent of tax planning is negative.

Other hypotheses tested in relation to H1 above examine the relationship between CSR and the extent of tax planning in the form of tax savings (Abdul Wahab and Holland, 2014). The hypotheses are:

Hypothesis 1a (1): There is a negative relationship between CSR and the extent of tax saving from permanent differences in non-financial companies quoted on the LSE.

Hypothesis 1a (2): There is a negative relationship between CSR and the extent of temporary differences in non-financial companies quoted on the LSE.

Hypothesis 1a(3): There is a negative relationship between CSR and the extent of tax saving from statutory tax rate differences in non-financial companies quoted on the LSE.

Table 5-10 shows the correlation between BTD and its components. PD and STRD are found as highly correlated to BTD, and must always be regarded as aggressive tax planning (Frank et al. 2009; Abdul Wahab & Holland 2014)

Table 5-10: Correlation of BTDs and its components

	BTD	PD	TD	STRD
BTD	1			
PD	0.719	1		
TD	0.4761	-0.2623	1	
STRD	0.0819	-0.0291	0.1753	1

.

Table 5-11 depicts the result of the relationship between corporate social responsibility (CSR) and the extent of tax planning. The extent of tax planning is tested in aggregate (BTD), as well as disaggregated into its components, namely permanent tax differences (PD), temporary tax differences (TD) and statutory tax rate differences (STRD). CSR, on the other hand, is investigated using the cumulative score of economic, environmental and social dimensions of CSR performance (TOTCSR).

In the first model, the result indicates a weak, positive significant relationship between CSR and the extent of tax planning (p value <0.10)[20]. With regard to control variables, three variables, i.e., capital expenditure (CAPEX), return on assets (ROA) and the SIZE of the companies are found to be positively related to the extent of tax planning measured by aggregate BTD. However, capital expenditure (CAPEX) indicates a weak significant relationship with p value less than 0.10 (p-value <0.10).

This did not support Hypothesis 1a and Hypothesis 1b, which stated that according to stakeholder theory, if CSR is practiced altruistically, the relationship between CSR and the extent of tax planning (BTD) is negative in non-financial companies quoted on the LSE and the letter stated that based on pragmatic approach in organisational legitimacy theory, assuming the risks of engaging in aggressive tax planning is high, the relationship of CSR and the extend of tax planning is negative. However, the result indicates positive relationship between CSR and the extent of tax planning (BTD). Consequently, null hypothesis that there is no relationship between CSR and the extent of tax planning (BTD) is rejected.

This result is slightly similar to Davis et al.(2016), which found a significant and strong negative relationship between CSR and tax paid to the government, signalling a positive relationship between CSR and the extent of tax planning. The slight difference lies in the magnitude of the p-value, for which Davis et al. (2016) reported a strong relationship, while this study only produced a weak but significant positive relationship. The results for the control variables are also in line with Davis et al.(2016) where companies' size and ROA are shown to have a significant and negative relationship with tax paid, indicating a positive relationship to the extent of tax planning.

Subsequently, the second, third and fourth models of this study are developed to investigate the relationship between CSR and the extent of tax planning in terms of tax savings (Abdul Wahab & Holland 2012; Abdul Wahab & Holland 2014) by segregating

[20] This weak positive significant relationship however can be considered as not significant if referring to the t-value shows less than 1.96 for non-directional hypothesis (Cho & Abe , 2013)

BTD into permanent tax differences (PD), temporary differences (TD) and statutory tax rate differences.

As for the second model, for the hypothesis 1a (1), the regression result in Table 5-11 shows that there is no significant relationship between CSR and PD. However, corporate governance (CORPGOV) is found to be negatively significant with the PD (t-value ≥1.96) and p value <0.05. Companies 'specific characteristic, the market value (MV) is found to be negatively significant with a p-value less than 0.01with t-value ≥1.96 and p-value <0.01. Consequently, this result fails to support hypothesis 1_a which stated that there is a negative relationship between CSR and the extent of tax saving from permanent differences (PD) in non-financial companies quoted on the LSE. Therefore, the null hypothesis that stated there is no relationship between CSR and permanent differences (PD) fails to be rejected.

For the third model with regard to hypothesis 1a (2) which stated that there is a negative relationship between CSR and the extent of temporary differences (TD) in non-financial companies quoted on the LSE, the regression result shows a similar non-significant relationship. Table 5-11 displays that the t-value of the variable CSR is <1.96 and p-value is more than 0.10. However, the market value (MV) found to be negatively significant with a p-value less than 0.01. This result is consistent with the second model, where it does not support hypothesis 1_b and fails to reject the null hypothesis that there is no relationship between CSR and the extent of tax planning in terms of temporary tax difference in publicly quoted companies listed on LSE.

Table 5-11: Regression results of relationship between CSR (TOTCSR) and the tax planning components (Model 1 to Model 4)

Models/Variables	btd (Model 1)		pd (Model 2)		td (Model 3)		strd (Model 4)	
	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
INTERCEPT	-4.923900	-4.13***	15.45673	421.41***	14.59641	195.53***	14.70661	320.22***
TOTCSR	0.008003	1.88*	0.0000163	0.12	-0.000044	-0.16	0.0000341	0.21
CORPGOV	-0.005013	-0.85	-0.00000726	-0.05	0.0000691	0.21	0.0000178	0.09
MV	-0.000011	-0.94	-0.00000393	-10.74***	-0.0000111	-14.91***	-0.00000738	-16.13***
CAPEX	0.023856	1.92*	0.0000702	0.17	-0.0004614	-0.54	-0.0000489	-0.09
ROA	0.037578	3.3***	-0.0002264	-0.79	-0.0001521	-0.26	0.0000455	0.13
MARGIN	0.002889	0.42	0.0000283	0.15	0.0000899	0.23	0.0000809	0.34
LEV	0.005223	1.33	0.0000014	0.01	-0.0000706	-0.27	0.0000252	0.16
SIZE	1.004209	10.82***	-0.0022541	-0.78	-0.0069508	-1.19	0.0016537	0.46
INDUSTRYTYPE	0.005830	0.69	-0.0000333	-0.12	0.0001246	0.22	0.0001238	0.35
R-squared / Pseudo R2	0.5770		0.2058		0.2543		0.5653	
Adjusted R-squared	0.5672						55.05	
F value	68.73%						58.17%	
Prob >F	0.0000						0.0000	

*** significant at 1% level **significant at 5% level *significant at 10% level

Variable definitions:

BTD = Book tax differences, total differences between GAAP accounting profit and taxable income with natural ln transformation, PD = Permanent differences, permanent differences reconciliation items with natural ln transformation, TD =Timing or temporary differences, timing or temporary difference reconciliation items with natural ln transformation, STRD = Statutory tax rate differences, total tax differences of overseas income to local tax rate with natural ln transformation, CSR = Corporate social responsibility, the average of composite economic, environment and social dimensions from ESG ASSET4 ratings, CORPGOV = % of corporate governance performance from ESG ASSET4 rating, MV = Market value, market to book ratio, CAPEX = Ratio of capital expenditure per total assets, ROA = return on assets, MARGIN = Operating profit margin, LEVERAGE = Ratio of long term debts per total assets, , SIZE= natural ln transformation for total assets, INDTYPE = type of industry, industry code

As for the fourth model with regard to hypothesis 1a(3) pertaining to the relationship of CSR and the extent of tax planning measured by BTD and its components, the regression result in Table 5-11 again demonstrates that there is no significant relationship between CSR and the extent of tax planning in terms of statutory tax differences (STRD). The control variable for capital expenditure (CAPEX) is found to be negatively significant with a t-value of ≥1.96 and p-value of less than 0.01. In this model, the market value (MV) found to be negatively significant with a p-value less than 0.01. As with the other three models discussed above, size of the company (SIZE) is consistently found to be positively association with the STRD. This result therefore does not support hypothesis 1_c which stated that there is a negative relationship between CSR and the extent of tax saving from statutory tax rate differences (STRD) in non-financial companies quoted on the LSE. The null hypothesis, then, again fails to be rejected.

To conclude, the regression analyses have a positively significant relationship in the first model but do not find any significant relationship for the second to fourth models, which examine the association of aggregate CSR and the extent of tax planning in aggregate (BTD) or its components, PD, TD and STRD. Corporate governance as a control variable is found to be negatively associated with the PD as has been found in the second regression model. Size of the companies (SIZE) and ROA are found to be significant throughout for the first model. However market value (MV) is found to consistently and positively associated with PD, TD and STRD as reported in the second to fourth regression models. Capital expenditure is found to be positively associated with BTD but none on the relationship with PD, TD and STRD.

5.8.2 The relationship between previous years' BTDs and CSR

Model 5 is intended to answer the fourth research question whether there is any adverse relationship between the extent of tax planning and CSR performance. This model is again related to the hypothesis 1a discussed in Section 5.8.1 , where CSR is found to positively associate to the extent of tax planning. This result might entail strategic CSR approach which companies might engage in CSR activities to repair the threats as a result of tax planning activities. Thus, this hypothesis (H2) is tested for the purpose of investigating whether CSR is being a strategic tool to manage threats as a result of aggressive tax planning.

This model exchanges the position of CSR from independent variable into dependent variable, whereas the extent of tax planning in the previous year (lagBTD) is treated as independent variable as shown by adverse arrow in Theoretical Framework at Section 1.8. The hypothesis tested is,

Hypothesis 2: There is a positive relationship between the previous year's extent of tax planning and CSR in the non-financial companies quoted on the LSE.

Table 5-12 presents the regression result for the fifth model. The regression results report that there is no significant relationship between the extent of tax planning in the previous year (lagBTD) and the CSR. Whereas control variable, corporate governance (CORPGOV) is found as strong and positively significant to CSR with t-value ≥ 1.96 and p-value <0.01. companies' specific characteristics such as return on assets (ROA), size (SIZE) and companies' type of industries are found to be strong and positively significant with the t-value ≥ 1.96 and p-value <0.01 for each variables. The capital expenditure (CAPEX) and margin (MARGIN) are found to be strong and relate negatively to the CSR with the t-value ≥1.96 and p-value<0.01 for both variables.

As consequent, this result indicate that the hypothesis 3 which stated there is a positive relationship between the previous year's extent of tax planning (lagBTD) and CSR in the non-financial companies quoted on the LSE is not supported. Thus the null hypothesis that stated there is no relationship of the previous year tax planning and the CSR is failed to be rejected. This result entails that there is no evidence that CSR is being a strategic tool for companies to deviate from the threat of the tax planning especially from tax authority

Table 5-12: The relationship of lagBTDs and CSR

Variable	CSR Coefficient	t-value
intercept	-40.21359	-0.64
lagBTD	-2.692532	-0.62
CORPGOV	0.5563656	9.50***
MV	0.0001036	0.73
CAPEX	-0.5875298	-3.43***
ROA	0.4541153	3.32***
MARGIN	-0.2465767	-3.49***
LEVERAGE	0.0298553	0.67
SIZE	7.75291	7.14***
INDTYPE	-0.5689536	-5.46***
R-squared	0.5715	
Adjusted R-squared	0.5602	
F value	0.5054	
Prob >F	0.0000	
n	351	

*** Significant at 1% level

**significant at 5% level

*significant at 10% level

Variable definitions: lagBTD = Book tax differences, total differences between GAAP accounting profit and taxable income with natural ln transformation and lag value, CSR = Corporate social responsibility, the average of composite economic, environment and social dimensions from ESG ASSET4 ratings, CGCORP*CSR = interaction of corporate governance and CSR, CORPGOV = % of corporate governance performance from ESG ASSET4 rating, MV = Market value, market to book ratio, CAPEX = Ratio of capital expenditure per total assets, ROA = return on assets, MARGIN = Operating profit margin,

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5.8.3 The relationship of CSR dimensions and tax planning

There are three dimensions of CSR examined in this study, namely economic, environmental and social dimensions. These dimensions consist of several items or constructs which were investigated in detail. For the dependent variable, which is the extent of tax planning; this sixth model only used aggregate BTD as the measurement. With regard to the CSR main dimensions, the fifth model is further developed to test these three hypotheses from hypothesis 3a to hypothesis 3c:

Hypothesis 3a: There is an association between the economic dimension of CSR and the extent of tax planning in non-financial companies quoted on the LSE.

Hypothesis 3b: There is an association between the environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on the LSE.

Hypothesis 3c): There is an association between the social dimension of CSR component and the extent of tax planning in non-financial companies quoted on the LSE.

Table 5-13 reports the regression results for the sixth model to answer the hypotheses listed above. The regression results document that there is no significant relationship found between economic, environmental and social dimensions and the extent of tax planning (BTD). On the other hand, company-specific characteristics such as capital expenditure (CAPEX) are found positively significant with a p-value <0.10. Return on assets (ROA) and size (SIZE) of the companies also demonstrate a positive association with p-value <0.01 for each of the variables. The result documents no relationship between corporate governance and the extent of tax planning (BTD) which is similar to the result obtained by Laguir et al. (2015).

The results are quite revealing in that they portray no significant relationship between CSR dimensions, namely the economic, environmental and social dimensions, and the extent of tax planning (BTD), unlike previous studies such as Lanis & Richardson 2012; Huseynov & Klamm 2012). However, the company-specific characteristic results are similar to Laguir et al. (2015); Lanis & Richardson (2012); Huseynov & Klamm (2012); Keung Hoi et al. (2013) in which size, capital availability and financial performance are found to positively relate to the tendency of companies to engage in tax planning activities.

As a summary, the results above do not support the three hypotheses (H3a to H3b) and therefore fail to reject the null hypothesis that there is no relationship between CSR dimensions and the extent of tax planning in aggregate (BTD).

Table 5-13: Regression results of relationship between CSR dimensions and BTD

Variables	Model 5: BTD		Model 6	BTD	
Panel A	Coefficient	t-value	Panel B	Coefficient	t-value
intercept	-4.97075	-4.18***	intercept	-4.69101	-3.93***
ECON	0.004019	1.28	ECPE	0.003598	1.32
ENV	-0.00186	-0.46	ECSL	0.003178	1.3
SOCL	0.00571	1.29	ECCL	0.000178	0.07
CORPGOV	-0.00455	-0.77	ENER	0.000616	0.14
MV	-1.2E-05	-1.00	ENPI	0.0003105	0.01
CAPEX	0.023201	1.89*	ENRR	-0.00316	-0.99
ROA	0.037174	3.29***	SOPR	0.004278	2.18**
MARGIN	0.002234	0.32	SOCO	0.001467	0.55
LEV	0.004298	1.07	SOHR	0.00546	2.28**
SIZE	1.009755	10.96***	SODO	0.001576	0.62
INDUSTRY TYPE	0.004439	0.52	SOEQ	0.002363	0.97
			SOHS	-0.00015	-0.05
			SOTD	-0.00926	-3.03***
			CGBF	-0.00097	-0.17
			CGBS	-0.00535	-1.25
			CGCP	0.000521	0.12
			CGVS	0.001946	0.62
			CGSR	-0.00128	-0.49
			MV	-1.6E-05	-1.46
			CAPEX	0.020748	1.66*
			ROA	0.034249	2.90**
			MARGIN	0.000743	0.1
			LEV	0.004498	1.08
			SIZE	1.003026	10.72***
			INDUSTRYTYPE	-0.00053	-0.05
R-squared	0.5787			0.6100	
Adjusted R-squared	0.5667			0.5827	
F value	0.5679			0.2234	
Prob >F	0.0000			0.0000	

*** significant at 1% level **significant at 5% level *significant at 10% levelVariable definitions: BTD = Book tax differences, total differences between GAAP accounting profit and taxable income with natural ln transformation, CSR = Corporate social responsibility, the average of composite economic, environment and social dimensions from ESG ASSET4 ratings, CORPGOV = % of corporate governance performance from ESG ASSET4 rating, ECON % score of economic dimension, ENV= % score of environmental dimension, SOCL = %score of social dimension, ECPE = % ofscore of financial components, ECSL = % score of shareholders' loyalty component, ECCL = % score of clients' loyalty component, ENER = % score of emission reduction component, ENPI = % score of product innovation component, ENRR = % score of resource reduction component, SOPR= %score of product responsibility component, SOCO = % score of community component, SOHR =% score of Human Rights component, SODO = % score of diversity component, SOEQ = % score of employment quality component, SOHS = % score of health and safety component, SOTD = % score of training and development score, CGBF = % score of board function component, CGBS = % score of board structure component, CGCP = % score of compensation policy component, CGVS = % score of vision and policy component, CGSR = % score of shareholders' right component MV = Market value, market to book ratio, CAPEX = Ratio of capital expenditure per total assets, ROA = return on assets, MARGIN = Operating profit margin, LEVERAGE = Ratio of long term debts per total assets, , SIZE= natural ln transformation for total assets, INDTYPE = type of industry, industry code

5.8.4 The moderating effect of corporate governance on the relationship between CSR and tax planning

Hypothesis 4 is intended to answer the third research question of whether corporate governance moderates the relationship of CSR (in aggregate) and the extent of tax planning (aggregate BTD) as depicted in Table 5-14 below. The hypothesis is tested using our eighth model. This model is highly related to Hypothesis One in the first model, where there is a weak positive relationship between CSR and the extent of tax planning. The hypothesis for this model is:

Hypothesis 4: The relationships between CSR and the extent of tax planning in non-financial companies quoted on the LSE are moderated by the companies' corporate governance.

Table 5-14: regression result of moderating effects of corporate governance on the relationship between CSR and the extent of tax planning

Variables	BTD	
	Coefficient	t-value
intercept	-4.007926	-3.07***
CSR	-0.0090122	-0.85
CGCORP*CSR	0.0227826	1.7*
CGCORP	-0.0161975	-1.85*
MV	-0.0000109	-0.92
CAPEX	0.0237982	1.92*
ROA	0.0369399	3.25***
MARGIN	0.0028085	0.41
LEV	0.0051539	1.29
SIZE	0.9970762	10.71***
INDTYPE	0.0045846	0.54
R-squared	0.5791	
Adjusted R-squared	0.5682	
F value	0.6225	
Prob >F	0.0000	

*** Significant at 1% level

**significant at 5% level

*significant at 10% level

Variable definitions: BTD = Book tax differences, total differences between GAAP accounting profit and taxable income with natural ln transformation, CSR = Corporate social responsibility, the average of composite economic, environment and social dimensions from ESG ASSET4 ratings, CGCORP*CSR = interaction of corporate governance and CSR, CORPGOV = % of corporate governance performance from ESG ASSET4 rating, MV = Market value, market to book ratio, CAPEX = Ratio of capital expenditure per total assets, ROA = return on assets, MARGIN =

Table 5-14 depicts the regression result of the moderating effect of corporate governance performance on the relationship between CSR and tax planning. The results indicate that the interaction between corporate governance (CORPGOV) and CSR; CGCORP*CSR has a significant influence on the relationship between CSR and the extent of tax planning (BTD) with a p-value <0.10. This interaction weakens the relationship of CSR and the extent of tax planning so that CSR is found to turn from weak positive significance as discussed in Section 5.8.1 to an insignificant association with the extent of tax planning.

However, this interaction yields another result for the control variable of corporate governance (CORPGOV). Corporate governance is found to be negatively associated with the extent of tax planning (BTD) with a p-value<0.10. As in the first model, capital expenditure (CAPEX), return on assets (ROA) and size (SIZE) are found to be positively significantly related to the extent of tax planning with p-values of <0.10, <0.01 and <0.01 respectively.

To conclude, the result discussed above supports hypothesis 4, which states that the relationships between CSR and the extent of tax planning are moderated by the companies' corporate governance in non-financial companies quoted on the LSE. Therefore, the null hypothesis is rejected.

Previously in section 4.5.1, regression model two (2) and three (3), corporate governance is found to be negatively associated with aggressive tax planning (measured by PD) and negatively associated with temporary differences (TD), which is also a proxy for earnings management. Further, the interaction between corporate governance and CSR were found to have moderating effect on the relationship between CSR and the extent of tax planning (measured by BTD). These results inspired this study to perform additional analysis relating to the moderating effect of corporate governance on perceived aggressive tax planning; i.e. permanent differences (PD) (Frank et al. 2009).

This further analysis was purposely carried out to investigate which dimensions of CSR are effectively moderated by corporate governance variable.

2 additional regression models originally from Model 8 is developed to incorporate PD as dependent variable.

Table 5-15: Regression result of the relationship of corporate governance and PD and TD

Model 7(a) quantile (75) positive pd				Model 7(b) quantile (75) positive pd			
logpd	Coef.	Std. Err.	t-value	logpd	Coef.	Std. Err.	t-value
_cons	-5.01175	1.809248	-2.77***	_cons	-5.52228	1.720465	-3.21***
csrsc	-0.044545	0.0175976	-2.53**	ecnscore	-0.01856	0.00626	-2.97***
csrcg	0.0004776	0.000215	2.22**	envsccore	-0.00809	0.007982	-1.01
cgvscore	-0.030703	0.0119767	-2.56**	socscore	-0.00494	0.007811	-0.63
mv	-4.53E-06	0.0000155	-0.29	csrcg	3.93E-04	0.000205	1.91*
capexta	0.0409244	0.0173945	2.35**	cgvscore	-0.02965	0.011365	-2.61**
roa	0.0534118	0.0133331	4.01***	mv	-1.3E-05	1.47E-05	-0.85
margin	-0.007479	0.0087008	-0.86	capexta	0.019674	0.0167	1.18
lev	0.007366	0.0068183	1.08	roa	0.058502	0.012674	4.62***
logta	1.23844	0.1328484	9.32***	margin	-0.00271	0.00841	-0.32
indtypecode	-0.00182	0.0122801	-0.15	lev	0.004151	0.006517	0.64
				logta	1.23029	0.126289	9.74***
				indtypecode	0.010744	0.011815	0.91
Obs	304			Obs	304		
F(9, 294)	28.13			F(12, 291)	21.48		
Prob > F	0.0000			Prob > F	0		
Pseudo R2	0.3616			Pseudo R2	0.3678		

*** Significant at 1% level
**significant at 5% level
*significant at 10% level
Variable definitions: BTD = Book tax differences, total differences between GAAP accounting profit and taxable income with natural ln transformation, CSR = Corporate social responsibility, the average of composite economic, environment and social dimensions from ESG ASSET4 ratings, CGCORP*CSR = interaction of corporate governance and CSR, CORPGOV = % of corporate governance performance from ESG ASSET4 rating, MV = Market value, market to book ratio, CAPEX = Ratio of capital expenditure per total assets, ROA = return on assets, MARGIN = Operating profit margin, LEVERAGE = Ratio of long term debts per total assets, , SIZE= natural ln transformation for total assets, INDTYPE = type of industry, industry code

Table 5-15 reports the relationship of CSR, corporate governance and the extent of tax planning with the existence of an interaction between corporate governance and CSR (CORPGOV). The results again show that the interaction of corporate governance and CSR (CORPGOV) is strongly significant to the relationship between CSR dimensions, with the t-value≥1.96 and the p-value<0.01. Previously, corporate governance was found to change the relationship between CSR and the extent of tax planning (measured by BTD) from a weak positive relationship to insignificant. However, corporate governance is again found to moderate the relationship between CSR dimensions and aggressive tax planning (PD).

It is interesting to highlight that, at the quantile 75%, the regression documents that the economic dimension of CSR is found to be strongly significant and negatively related to aggressive tax planning (PD) with a t-value≥1.96 and p-value <0.01. In addition, with the interaction of corporate governance and CSR, at 75% quantile of PD, the regressions result document strongly significant and negative relationship between corporate governance and aggressive tax planning (PD) with a t-value ≥1.96 and p-value <0.01.

The results indicate that companies would have their limit in their economic and commercial objectives where the risks taken in respect of tax planning activities are considered. At a certain point of aggressive tax planning, with the interaction of corporate governance and CSR, companies are likely to take one step back to reduce the risk of tax planning.

5.9 Chapter summary

No.		Hypotheses references and statements	Measurement for TP	Equation	Supported (√) Not supported (X)
1.	H1a	According to stakeholder theory, if the CSR is practised altruistically, the relationship of CSR and the extent of tax planning is negative	BTDs		√ (adverse direction)
	H1b	Based on pragmatic approach in organisational legitimacy theory, assuming the risks of engaging in aggressive tax planning is high, the relationship of CSR and the extend of tax planning is negative	BTD		X
2.	H1a(1)	There is a negative relationship between CSR and the extent of tax saving from permanent differences in non-financial companies quoted on LSE	PD		X
3.	H1a(2)	There is a negative relationship between CSR and the extent of temporary differences in non-financial companies quoted on LSE	TD		√ Significant at higher quartile
4.	H1a(3)	There is a negative relationship between CSR and the extent of tax saving from statutory tax rate differences in non-financial companies quoted on LSE	STRD		X
5.	H2	There is a positive relationship between previous year's extent of tax planning and CSR in non-financial companies quoted on LSE	BTD		X
6.	H3a	There is as an association economic dimension of CSR and the extent of tax planning in non-	BTD		X

No.		Hypotheses references and statements	Measurement for TP	Equation	Supported (√) Not supported (X)
		financial companies quoted on LSE.			
7.	H3b	There is as an association environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE..	BTD		X
8.	H3c	There is an association between social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD		X
9.	$H1_{d1}$	There is relationship between ECPE in economic dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD		Removed
10.	$H1_{d2}$	There is a positive (negative) relationship between ECSL in economic dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE.	BTD		Removed
11.	$H1_{d3}$	There is a positive (negative) relationship between ECCL in economic dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE. and the extent of tax planning in non-financial companies quoted on LSE.	BTD		Removed
12.	$H1_{e1}$	There is a positive (negative) relationship between ENER in environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed

No.		Hypotheses references and statements	Measurement for TP	Equation	Supported (√) Not supported (X)
13.	$H1_{e2}$	There is a positive (negative) relationship between ENPI in environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
14.	$H1_{e3}$	There is a positive (negative) relationship between ENRR in environmental dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
15.	$H1_{f1}$	There is a positive (negative) relationship between SOPR in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
16.	$H1_{f2}$	There is a positive (negative) relationship between SOCO in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
17.	$H1_{f3}$	There is a positive (negative) relationship between SOHR in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
18.	$H1_{f4}$	There is a positive (negative) relationship between SODO in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed

No.	Hypotheses references and statements		Measurement for TP	Equation	Supported (√) Not supported (X)
19.	$H1_{f5}$	There is a positive (negative) relationship between SOEQ in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
20.	$H1_{f6}$	There is a positive (negative) relationship between SOHS in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
21.	$H1_{f7}$	There is a positive (negative) relationship between SOTD in social dimension of CSR and the extent of tax planning in non-financial companies quoted on LSE	BTD		Removed
22.	H4	The relationships between CSR and the extent of tax planning are moderated by companies' corporate governance in non-financial companies quoted on LSE.	BTD		√

6. Discussions and Recommendations

6.1 The relationship between CSR and the extent of tax planning

The aims of this study were to examine whether companies' attitudes towards CSR relates to the companies' attitude towards tax planning and whether corporate governance moderates the relationship between CSR and the extent of tax planning. Attitudes towards CSR are measured using ASSET4 ESG ratings and the extent of tax planning is measured by employing the BTD and its components.

The results discussed from Section 6.3 record several significant changes in the relationship between CSR and the extent of tax planning due to changes in the level of tax planning (from low to aggressive) and the moderating effect of corporate governance.

From the results obtained, it can be concluded that there is a weak positive relationship between CSR and the extent of tax planning. However, there is no relationship found between CSR and the specific components of tax planning; permanent difference (PD), temporary difference (TD) and statutory tax rate differences (PD). CSR is then disaggregated into its dimensions and subsequently individual components as suggested by Bird et al. (2007) that CSR, either in total or in its individual components, could influence companies' activities and decision making. Although none of the CSR dimensions show a significant relationship with the extent of tax planning, three constructs under the social dimension are shown to have an effect. There is a positive relationship between the product responsibility and human rights components and the extent of tax planning, and a negative association between the training development component and the extent of tax planning. Laguir et al. (2015) claim that this relationship entails that the more companies engage with the social and economic dimension, the more they are likely to engage in tax planning activities. This is similar to the claim made by Jensen (2010) and Davis et al. (2016) that by engaging in business-related CSR behaviour, companies are maximising their post-tax profits as a result of tax savings and investing in social welfare, such as creation of new job opportunities or paying higher salaries to the staff. Thus, the marginal benefits of tax planning become a trade-off for companies to increase their post-tax returns.

Besides, the results of control variables in hypothesis 1a(1) to hypothesis 1a(3) which reflect positive and significant relationship between market value (MV) and tax planning may signal that the shareholders are the *conferring public* or salient stakeholders of for companies. (O’Donovan 2002; Agle et al. 1999). Stakeholders may prefer the tax planning activities as such activities increase post tax return, thus yielding high returns for them in term of dividends. These might turn other stakeholders not as important as shareholders, and therefore risks of tax planning would be ignored.

However Jensen (2010) does not deny that some value maximisation activities would harm the social welfare if they were done aggressively.

The results from hypothesis 1_{f7} had shown adverse relationship of training and development component under social dimensions with the extent of tax planning. Further the negative relationship is linked to the high temporary tax differences as presented in Table 5-11. Temporary tax differences had always been used to infer earnings management activities (Moser & Martin 2012; Kim et al. 2011). Therefore, this relationship would suggest that training and development especially for management staffs might provide knowledge about corporate culture and ethics, thus refraining the, from earnings management activities.

Firms might continue to pursue aggressive tax planning if they found the benefits of carrying these activities are more than risks involved. This is in line with Becker (1974) in which it is difficult for the government to set optimal conditions in term of social crime as the costs of determining the crimes and the punishment are difficult to be commensurate. Therefore, firms might continue to engage in aggressive tax planning activities as they might perceive that enforcement taken by HMRC is not effective in term of risks they have to encounter.

The negative relationship with corporate governance might entail that top management are against tax planning as it is aggressive. As PD is regarded as aggressive tax planning, this might indicate that at a certain point, good corporate governance would not approve it. As shown in Table 5-10, PD dominates the second highest component in BTDs. This entails that the higher the level of BTDs, the higher the level of risk that firms are undertaking aggressive tax planning activities.

6.2 The moderating effects of corporate governance on the relationship between CSR and the extent of tax planning

The results from the fourth hypothesis provide evidence that corporate governance have significant roles in linking companies' strategic decisions and engaging in any business activities (Cadbury 2000). In respect of this study, the results reflect that corporate governance is strongly required to shape the CSR dimensions and have control on the risk of tax planning. Negative significant relationship might entail that corporate governance of companies are considering the risk of tax planning to be substantial to the business, therefore decide to engage less in tax planning activities.

This is evidenced by the results of additional analysis performed to find the function of corporate governance in the situation of aggressive tax planning (as in Table 5-15). This results reflect that at certain point of aggressive tax planning, with the interaction of corporate governance and CSR, the risks of tax planning anticipated is considered and to be managed (Moore 2012).

The results also show that with the interaction of corporate governance and CSR, relationship of CSR and the extent of tax planning is quadratic. This is evidenced by the results presented in Table 5-15 which initially shows that there is no relationship of CSR and the BTD, which the degree of risks might still be low. Subsequently when the degree of tax planning increased (PD measured by 75% quantile), the relationship changed to be strongly and negatively significant. This findings also might indicate the function of agency-principal relationship (Jensen & Meckling 1976) that shareholders might oppose the any actions that may jeopardise companies' reputations through corporate governance roles (Desai & Dharmapala 2007).

6.3 The relationship between last years' tax planning and CSR

The results from Model 5 as discussed above fail to reject null hypothesis that there is no relationship between previous year's tax planning activities and CSR.

Firstly, in respect of risks of tax planning, this result shows that companies do not perceive risks from tax authority as severe. Therefore, the risk of tax planning activities done would not shape future shape of CSR. This connotes that the stakeholder such as tax authority and the public are not influential to companies.

Previously, Holland et al. (2013) found that companies usually respond to tax reputational threats in term of tax disclosure. Other types of respond including CSR are still in question. This study therefore provides evidence that CSR, as far as this study is concern, is not being used as a type of respond for tax reputational threats.

6.4 Theoretical implications

The findings of this study have several theoretical implications. The results discussed above are in line with the organisational legitimacy theory (Suchman 1995), augmented by the value maximisation theory (Jensen, 2010). The interaction between these theories predicts that companies have been taking a traditional economic point of view where profit maximisation is their specific business objective in deciding whether their activities are legitimate or illegitimate. The weak positive relationship between the whole CSR and zero relationship between CSR and components of BTD are parallel to this concept. It entails that tax matters are not considered a priority in companies' strategic decision making, leaving the concept of CSR embedded in the companies' strategic approach unconnected. This also links to the claim made by Glaister & Hughes (2008) that tax matters, especially tax planning, could not precede commercial purposes when companies are making strategic business decisions. In fact, tax is seen as one of the factors that cannot be looked at alone. In respect of tax planning risks, tax risk is considered exactly like other risks involved in business, where it is assessed properly before rational choices are made (Glaister & Hughes, 2008). As companies are more interested in the commercial purposes than in specific tax risks, tax planning activities are carried out for their own benefits, so risks are not strongly linked to business decisions. In addition, basic organisational legitimacy theory also emphasizes that an activity is considered legitimate if it does not contain deception and fraud; thus, tax planning or avoidance is considered a legitimate action and pursued for its commercial value as long as it complies with the tax law.

As organisational legitimacy theory elaborates that companies will continuously repair any legitimacy threat if they found it substantial to companies' competitiveness. This is evidenced by the negative relationship of CSR economic dimension and the extent of tax planning with the existence of interaction between corporate governance and CSR.

The findings of this study also connote that the efficiency of corporate governance would control companies from severe threats and therefore strengthen agency-principle relationship (Jensen & Meckling 1976).

6.5 Practical implications

In respect of practical implications, this study contributes to the understanding that CSR of companies are perceived differently by the public. Companies set forth their responsibility to the economic dimension and commercial purpose in their CSR, while public often perceive CSR at the community dimension alone.

In respect of tax planning, higher CSR performance could not be linked to the lower level of tax planning as ethically debated, but high CSR performance shall be referred to commercial and value maximisation purposes in companies; activities.

However, companies with high CSR and efficient corporate governance have their limit in maximising their profits.

6.6 Limitations and recommendations for future research

1. As this research is carried on large cross sectional data, it should be understood with cautious when discussing about the relationship of CSR and tax planning, as the variations of each industries are specific. One could not generalise that all the listed non- financial companies on the LSE have similar perceptions and similar responses. This piece of research could only provide some insight on the CSR pattern and tax planning of non-financial companies listed on London Stock Exchange LSE

2. Further, this study is in the positivism research philosophy and employing purely quantitative approach. Therefore, part of typical limitation that is recognised. Since this study adopt deductive approach and using cross sectional archival data in this study is it can only provide correlation and not causation. However, the

results could be used for future in-depth research to prove causation over correlation evidences obtained in this study.

3. As external social ratings also rely on the company's voluntary disclosures to assess company's social performance (Aguilera et al. 2006), thus their assessment would be limited to the corporate social responsibilities reported by the companies. This practice would discount the fair quality of external ratings.

6.7 Conclusions

This chapter discussed the findings and the research questions of this study. The relationship of CSR and the extent of tax planning is positively significant and it is related to CSR business related components such as product responsibility. The corporate governance is found to moderate the relationship between CSR and the extent of tax planning from positively significant to not significant. The interaction of corporate governance and CSR changed the relationship between CSR and extent of tax planning to be negative at certain point of aggressive tax planning.

By employing legitimacy theory augmented by value maximisation theory and supplementing with stakeholder theory, this study investigates the relationship between Corporate Social Responsibility (CSR) and tax planning, where the tax authority and the public are assumed as important stakeholders in a high tax-regulation environment.

Using the UK setting, this study selects a total of 76 non-financial publicly quoted companies listed on the London Stock Exchange (LSE) for a 10-year duration (2005 – 2014) based on matched data between book tax differences (BTD and its components) and CSR data (Environment, Social and Governance (ESG) ratings by ASSET4, a Reuters business information group). At the initial stage, this study found a weak positive association between aggregate CSR and the extent of tax planning. Product responsibility, human rights considerations and training and development under CSR social dimensions are found to be significantly related to the extent of tax planning.

The relationship of CSR and tax planning changed with the existence of corporate governance as a moderating variable. The association of CSR and tax planning is found to be negatively significant at the higher quantile of permanent difference (PD) with the existence of interaction between corporate governance and CSR. In addition, corporate governance is found to be strongly and negatively significant to the extent of tax planning at the higher quantile of permanent difference (PD).

This study also found that there is no relationship between previous years of tax planning and CSR, suggesting that there is no evidence that CSR is used as a strategic tool by companies to repair the threat posed by aggressive tax planning. This study provides evidence that companies' attitudes towards CSR are related to the extent of tax planning activities when the risks of tax planning become substantial or aggressive

Appendices

Glossary

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