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Corporate tax aggressiveness and corporate governance: the case of citizen firms

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Abstract: Firms have an inherent intention to minimise their tax burden. These implicit or explicit plans may harm the reputation of citizen firms. Since they are under higher visibility from stakeholders, citizen firms have to adopt an ethical and responsible tax behaviour. The aim of this study is to analyse whether the tax policy is more/less likely to be aggressive in the best 100 corporate citizens. In this paper, the influence of social responsibility on tax policies has been meticulously explored by two methods: a combined effect and an instrumentalist approach. The sample is composed of the best 100 US corporate citizens during 2020. The empirical results reject the direct effects of the corporate social responsibility score and its combined effect with governance variables on tax aggressiveness. However, the moderation effect, which supposes an instrumentalist approach, was supported.

Keywords: corporate social responsibility; CSR; tax aggressiveness; corporate governance; corporate citizens.

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1 Introduction

The firm performs within direct and indirect environments that involve many stakeholders. Satisfying the primary and secondary stakeholders is an ultimate objective to guarantee firms' survival and competitive edge. Social activities can help firms fulfil their duties toward all of their stakeholders. By practicing corporate social responsibility (CSR), firms enhance the well-being of the community, create a more sustainable environment, forge strong relations with customers and increase the commitment of employees.

The topic of CSR (Carroll, 1999; Gond and Crane, 2010) has been investigated extensively by academics in the recent decades. Examining the role of social behaviour in corporate activities has become a trend in recent management studies.

The succession of many scandals in some large firms, even they were classified as citizen firms, has raised a dominant and instrumental intention of CSR that in several firms tends to be a flag raised without practical compliance. Indeed, citizen firms are undergoing a real crisis of legitimacy and can jeopardise the quality and transparency of the relation between firms and their stakeholders.

A series of recent scandals has hit large firms despite their status as being the 'most admired', Many firms have been involved in fraudulent behaviour. Such firms include Enron, Adelphia Communications, Xerox, World com, Waste Management and Facebook.

To this end, the firm is described as a 'citizen' and is in the centre of the media debate. Discussions were held on the impact of the nature of the firm's response to social interests on the decrease of abusive manipulations, with tax aggressiveness in the middle. Then, several studies found that the voluntary application of the principles of social responsibility by firms may be an indication that these firms derive some benefit from these practices (Cadiou et al., 2005; Gond, 2004; Perez, 2008). Thus, social status can be a shelter that protects the firm against any reproach that attacks its policies (Reinhardt et al., 2008).

These corporate citizens are supposed to be leaders in social responsibility activities. They are intended to have a social, cultural and environmental responsibilities as well as satisfying their internal and external stakeholders. Thus, their policies should be in concordance and in harmony with their social status.

Under a social approach, when firms reduce aggressively their tax loads, they produce expenses and profits, financing public goods in between. However, many firms have been shown to be resistant to paying taxes. Slemrod (2004) mentioned that avoidance of paying taxes minimises the revenue allocated to enhance the well-being of society.

Recently, some studies have been interested in studying tax policies such as tax avoidance, tax planning and tax aggressiveness in the context of citizen firms. Lanis and Richardson (2012) found that corporate social activities negatively influence the tax aggressiveness of Australian citizen firms. Moreover, Richardson et al. (2015) revealed that the social activities that target the community are the most efficient in reducing tax burdens. Ylönen and Laine (2015) highlighted the idea that corporate taxation decisions should be embedded in the firms' social agendas. The scope and intensity of initiatives affect how corporate tax behaviour is perceived by society.

Hoi et al. (2013) described two streams of research that are involved in analysing why firms are intensively occupied with social plans. The first one considers CSR as one component of corporate culture. Then, the awareness of socially responsible behaviour will be transmitted under the umbrella of corporate culture. The responsible tax decisions are influenced by the corporate culture. The second stream of research explains that CSR helps in avoiding the degradation of a reputation. Indeed, it is used as a risk management tool.

Sapitri (2020) aims to analyse the effect of tax aggressiveness on CSR in Indonesian context during the period 2013–2015. The author concluded that tax aggressiveness has an impact on CSR while ROA and leverage had no effect on CSR. Mohanadas et al. (2019) analysed how CSR performance in community, environment, marketplace and workplace themes relate to the tax aggressiveness of listed companies in Malaysia. The findings did not prove any statistical support that CSR performance is related to corporate tax aggressiveness in Malaysia.

The purpose of this study is twofold: first we aim to empirically explore the influence of the degree of involvement in CSR on the extent of corporate tax aggressiveness in the top US citizen firms. Second, we study whether the citizenship can guarantee a real and legal tax policy.

Thus, throughout our investigation we intend to obtain responses to the following questions:

- Could the citizen firm be irresponsible in paying its taxes? In other words, could the citizen firm be reproachable in its tax aggressiveness?

This paper makes an important contribution to the literature. First, our results generate a new direction of empirical investigation that has not been previously examined by directly measuring the effect of CSR and then by using interaction models with corporate governance. Second, we advance the theory that CSR helps protect firms against reproachable criticism of its tax policy. Third, our study seeks to identify the factors that increase the propensity of aggressive tax practices.

The remainder of the paper is organised as follows: we review the prior literature, in particular the prior studies and the literature on tax avoidance and corporate social activity in Section 2. In Section 3, we develop the hypotheses. Section 4 presents our research methodology. We develop the empirical analysis in Section 5, and we conclude in Section 6.

2 Literature review

In the discussion below, we provide a more detailed overview of the fundamental concepts of this paper: CSR, corporate citizenship, corporate governance and tax aggressiveness.

2.1 Corporate citizenship and CSR

Corporate citizenship is a fundamental concept in management that deals with the social role of organisations. This concept has stemmed from the American business context and is fundamentally based on CSR. Carroll (1999) stated that corporate citizenship is classified among the philanthropic dimension of CSR.

CSR and corporate citizenship have been criticised due to the vagueness of the concept itself. Academics and practitioners do not define these concepts in a unique way.

Under the perspective of CSR, the firm will not only focus on the unique interest of shareholders but also on that of other stakeholders. The proponents of this approach believe that CSR should be embedded in the strategy of the firm. Bouguila (2017) revealed that citizen firms implement special strategies to meet their social expectations.

However, CSR suffers to find any legal substance as a compulsory duty to be practiced by firms under the frame of clear or strict regulations or laws. Therefore, the extent of the pledge and commitment of firms may be different.

This fact lets us assume that the firm is only accountable for its own CSR guidelines that it has adopted under social pressure to obtain legitimacy for its activities. However, the practical aspect of these guidelines may be questionable.

According to the stakeholders and the legitimacy theories, the firm is bound to society through a contract. The clauses of this contract consider the desires of the society (Deegan et al., 2002).

These two concepts (CSR and corporate citizenship) pretend that firms seek the recognition for their business activities from groups of different references in society. A firm that can demonstrate its legitimacy while leading its business as its reference groups is considered to be socially responsible. Indeed, firms will be more engaged in pursuing the legal path when they are strongly influenced by their reference groups (Gray et al., 1995).

Landolf (2006) explained the premises of these two concepts in a taxation context. The author claimed that the firm can demonstrate its legitimacy and sustain a good image with the tax authorities in complying with the tax law.

2.2 Corporate tax: a dimension of CSR

The goal of managers is to maximise the profitability of their firms; in other words, managers must focus solely on the interests of the shareholders and consider the interests of others stakeholders as a means to achieve this goal.

According to this orientation, firms consider their stakeholders as part of the environment that must be managed to ensure better returns to shareholders. Companies can improve their financial performance by trying to consider social factors. Indeed, the perception of the company as socially responsible can improve its market stock. The consumer is no longer interested in simple consumption because he has concerns for the environment and ethics, and this explains why companies use tactics such as ecological and environmental marketing to highlight the effectiveness of their products.

The corporate citizen can protect itself against certain risks and criticisms, avoiding the costs generated by litigation with its partners. Considering social aspects improves the image that is perceived by the community. A good reputation allows the company to increase and retain its customers and to conquer new markets.

From this point of view, these corporate citizens can act as ‘strategic companies’ or proactive companies. Indeed, subject to strong competitive pressure and a multitude of social demands, they make social responsibility an opportunity to strengthen the financial strategy-performance report. However, these social actions can be temporary.

Moreover, these American companies self-regulate and set the objectives, as well as the means to achieve them, while embarking on unilateral commitments that can often be of a qualitative nature.

In this paper, we can consider the tax policy as a strategic tool to be managed according the main objective of the firm. All else being equal, the more socially responsible firm will be more committed to paying taxes to participate in the well-being of the whole society and will have lower levels of tax aggressiveness. Since they belong to top citizens, firms can protect and avoid any negative criticism of their practical tax strategies.

In fact, some citizen firms can encompass an instrumental social strategy to avoid high taxation; thus, could a firm find fiscal paradise in its classification as a best citizen firm? Many scandalous events have shown that many firms were resistant to pay taxes. If we rely upon the report done by Susanna Kim in April 2012 (ABC News Business Reports, https://abcnews.go.com/Business/report-26-us-companies-negative-average-federal-income/story?id=16111671/), she finds that 26 US firms are not paying federal income tax. Unfortunately, and paradoxically, some of these firms are citizen firms, including General Electric and Pepco Holdings cases.

In this specific study, we concentrate on corporate taxes as a dimension of CSR and we try to verify if the firms indeed practice the legal payment to participate in public finance. However, this payment is perceived as a cost, so the rational objective of any firm is to reduce their tax burden. From a CSR outlook, firms should avoid taxation by utilising legal techniques and activities covering business operations.

Although the post Sarbanes-Oxley Act 2002 period has witnessed a high level of scrutiny, many firms have still not had ethical, community or other stakeholder considerations in mind. In this sense, Freedman (2003) indicates that many firms can be discouraged against abusive actions by reducing their tax liability through corporate tax avoidance.

Although the literature on tax avoidance and CSR is abundant, the relation between the two has been infrequently studied and results are mixed. The conclusions drawn on this connection remain inconclusive, and the interrogations need deeper investigation (Gulzar et al., 2018).

In the setting of CSR, Davis et al. (2016) concluded that stakeholders have different perspectives on paying tax burdens. The payment of taxes by firms will not have the same importance in the code of conduct of CSR. The authors found a positive connection between tax lobbying expenditures and CSR. These findings imply that socially responsible firms are involved in tax lobbying activities.

Sikka (2010) conducted research on the largest firms: Enron, Worldcom, KPMG and Wal-Mart. The results indicate that there is a gap between the firm’s disclosures in terms of CSR and what is really implemented in tax practices. Therefore, social initiatives are promoted to mask their tax avoidance.

Another stream of research highlighted the effect of CSR activities on protecting firms from any hostile event. Firms that are highly perceived as socially responsible have a good reputation that helps them overcome the negative effects of these events (Minor and Morgan, 2011).

Watson (2015) tackled another angle of research on the link between CSR and tax aggressiveness. The author shed light on the moderating effect of some variables such as earnings performance that can affect the nature of this link.

Zeng (2019) conducted an international study on the link CSR and tax avoidance. The results conclude that this relation is complex and can be attributed to the country governance level.

Gulzar et al. (2018) found that responsible firms are more legally engaged in paying their taxes in the Chinese context. Their results suggest that firms that are known as socially responsible have greater intention to avoid paying their tax loads. Their conclusions contradict the previous ones that demonstrate a positive association between CSR score and tax avoidance.

Landry et al. (2013) revealed that there is no link between the corporate social activities of Canadian firms and their tax policies. The authors consider that ownership structure moderates the relationship between CSR and tax aggressiveness.

2.3 Corporate social responsibility governance and tax aggressiveness: the moderation effect

The governance of CSR is a monitoring mechanism that has been adopted by firms to ensure their participation in the well-being of the community and in environmental stability. This mechanism operates through fundamental strategies that are addressed at forging the bridge between firms and stakeholders (Dahlsrud, 2006).

Sahut et al. (2019) mentioned that firms should pay more attention to CSR guidelines. Top managers facilitate the adherence to these principles, and they will develop a CSR culture that will be the umbrella under which the business operations will be done. The governance monitoring system should control the implementation of CSR principles.

The relationship between corporate governance and CSR has been investigated in the study of the relationship between risk and corporate performance. García-Sánchez et al. (2015) argue that corporate governance is embedded in the social responsibility framework.

Ntim and Soobaroyen (2013) demonstrated that firms with sound corporate governance are more interested in developing corporate social activities. The researchers concluded that board characteristics such as size, diversity, and independent directors improve the development of CSR activities.

Prabowo et al. (2017) highlighted the role of women in improving CSR agendas in 88 Indonesian banks. Women in top positions have more significant effects in firms without governmental ownership.

Singla and Singh (2018) suggest that the assessment of governance mechanisms that are only based on the efficiency of the board indicators cannot lead to a reliable recommendation to reinforce the governance system.

In the same line of thought, Mallin et al. (2013) added that board characteristics help balance the value creation of stockholders and the interests of other stakeholders. In other words, they promote the CSR plans. CSR and corporate governance help firms improve their growth and the well-being of stakeholders and shareholders. When the governance system gives interest to corporate social activities, the shareholder value creation and the stakeholder protection will be balanced (Law, 2011).

Jannoun (2018) studied the linkage between corporate governance and sustainability in family business firms. The results reveal that these special types of businesses are influenced by the leadership style and quality of the transparency system.

Lanis and Richardson (2011) found that firms with more outside directors are more likely to be more tax responsible. A high dominance of outside directors inside boards provides an intensive control. Richardson et al. (2013) highlighted the role of sound corporate governance in responsible tax decisions of Australian firms. The authors indicated that an independent audit committee and the implementation of an effective risk management system contribute to less aggressive tax strategies.

Huseynov and Klamm (2012) explored the relationship between CSR, corporate governance and tax fees. They found contradictory results. According to their findings, socially responsible firms are more involved in tax-aggressive strategies.

Board networks help convey tax avoidance techniques among the directors. The strength of diffusion drastically influences the new experiences of minimising the effective tax rates (Brown and Drake, 2014).

Laguir et al. (2015) studied the impact of CSR dimensions on tax aggressiveness. The authors highlighted the economic, governance, social and environmental dimensions. Their findings claim that, through practicing corporate social activities, firms can establish an ethical culture that will be externalised to outsiders. The authors contribute in different ways to the existent literature, and they conclude that only the economic and social dimensions of CSR have an influence on tax aggressiveness decisions. The governance dimension was not significant in the French context.

3 Hypotheses development

There are no consensual results regarding the direct impact of citizenship on tax aggressiveness. This is contrary to Zeng (2019), who proposed a non-directional hypothesis when testing the link between CSR and tax aggressiveness. In this research, we postulate a unidirectional hypothesis based on the stakeholder theory that considers tax to be included in CSR. The firm has a moral obligation to promote a positive tax policy. This model supposes a social commitment for legal taxation. Under this perspective, if the degree of social commitment affects the tax policy of the citizen firm, it follows that the decisions of the firm affect the well-being of the whole society, which implies a normative obligation for paying taxes.

To test this hypothesis, we formulate a model that is derived from the normative perspective of stakeholders. In this model, we incorporate the average social score and control variables. It is written as follows:

Hypothesis 1 The level of corporate citizenship has a direct and negative effect on tax aggressiveness.

To show the robustness of the social responsibility as an important explicative variable compared with governance control variables, we tested the direct effect of the latter proxies on tax aggressiveness to compare the explanatory power of these two estimations. Bayar et al. (2017) found that a sound corporate governance mechanism helps firms mitigate the disallowing effects of tax avoidance. Minnick and Noga (2010) highlighted the positive effect of corporate governance on tax management for the long run. Richardson et al. (2013) demonstrated that the board composition, particularly a high rate of independent directors, and an efficient risk management system reduce aggressive actions to reduce tax payments.

Hypothesis 2 An effective governance system is negatively associated with tax aggressiveness.

We also suggest testing the combined effect of governance mechanisms and the level of citizenship on tax aggressiveness. This hypothesis is based on the assumption that these mechanisms of control, added to social status of the firm, may decrease tax aggressiveness. Few studies have separately investigated the effects of corporate governance or CSR on tax aggressiveness. Rose (2007) demonstrated that CSR disclosure affects the board's commitment to socially responsible activities.

Hypothesis 3 Governance mechanisms combined with the level of corporate citizenship are negatively associated with tax aggressiveness.

However, if the degree of social responsibility can be affected by the degree of the effectiveness of the governance system, the corporate tax policy and strategic decisions can be affected by the level of its citizenship. This link provides the instrumental perspective of social responsibility in achieving the fiscal objectives of being in tax paradise by minimising the taxation cost.

A fourth model was proposed to test this direction, and it reflects a moderation effect when we included all of the interactions between governance variables with the social score in the regression. Moderation would be supported if the model represented a statistically significant improvement over the model with only the direct effects.

This model reflects the instrumentalist approach of the social status and its benefits to the citizen firm as discretional advantages compared with the unlisted firms. In fact, by obtaining social status firms can benefit, in addition to minimising their taxes.

However, if the degree of social responsibility can be affected by the degree of the effectiveness of the governance system, the corporate tax policy and strategic decisions can be affected by the level of its citizenship.

Hypothesis 4 CSR is a tool that must be managed to minimise taxation through donation to charity, recruiting bachelors, and financing news projects.

4 Methodology

4.1 Sample presentation

The choice of this sample was motivated by the fact that it allows us to conduct empirical studies that are consistent with our objectives because:

- The 100 US best corporate citizens are supposed to be socially responsible, act in the interests of the various stakeholders, and have practices that do not go against their social status. The list of 100 best corporate citizens is provided by the *Corporate Responsibility Magazine* (https://www.csrwire.com/). The criteria of classification, used by the magazine, is the weighted score which considers the environmental, social and governance performance (ESG) of public firms. The weighted score is calculated based on 260 ESG data points of disclosure and performance measures collected from public records in seven categories: environment, climate change, employee relations, human rights, governance, finance, and philanthropy and community support.

This sample guarantees the availability of the data we need to validate the assumptions of our research. Therefore, these firms cover a wide range of industrial activity and explain a significant part of the economic performance of the USA.

Financial and governance data are extracted form annual and proxy reports on the website of US Securities and Exchange Commission for 2020.

4.2 Definition of variables

Table 1 presents all variables used in this study. The explanation of the measurement is also provided along with the abbreviations.

Table 1 Description of variables

Variables and abbreviations	*Measures*
	Dependent variable
Tax aggressiveness (TAG)	ETR (effective tax rate): income tax expense currently payable divided by pre-tax accounting income (Lanis and Richardson, 2011; Aliani et al., 2016; Aliani, 2014; Dyreng et al., 2008).
	Independent variables
CSR	The weighted score. The CSR score is the weighted score of different criteria based on eight pillars: climate change, employee relations, environment, ESG performance, finance, governance, human rights and stakeholders and society. This score is provided by the Corporate Responsibility Magazine (https://www.csrwire.com/).
	Governance variables
Blokholders (BLH)	Shares held by blockholders that hold at least 5% of shares and who are not affiliated with management.
CEO duality (DUA)	A dummy variable that takes 1 if the chairman of the board is at the same time the CEO; 0 otherwise.
Board size (BSIZE)	Ln of the number of directors in the board. Lanis and Richardson (2011) found that small boards can reduce more the likelihood of TAG
Board meeting (BM)	Ln of the number of meeting held by the board of directors. Adams and Mehran (2008)
CEO tenure (TEN)	Ln of Numbers of years as a CEO of the firm.
Managerial ownership (MO)	Managerial stock ownership. Measured as the ratio of shares owned by the executive directors on the board to total outstanding shares (Morck et al., 1988)
Independent directors (IND)	The proportion of independent directors in the board.
CSR committee (CSRC)	Dummy variable which takes 1 if there is a social responsibility committee, 0 otherwise. This committee should increase the control exerted by the board of directors on TAG
CEO age (AGE)	Ln of the CEO age
CSR meeting (CSRM)	Number of the meeting of CSR committee.

Table 1 Description of variables (continued)

Variables and abbreviations	*Measures*
	Control variables
Firm size (SIZE)	Measured as Ln of total assets (Dyreng et al., 2008)
Leverage (LEV)	Measured as: long-term debt divided by total assets. The more the firms have credit the more will be exonerated to pay taxes.
Return on assets (ROA)	Calculated as the ratio of net income to total assets (Lanis and Richardson, 2012; Laguir et al., 2015)
Research and development (R&D)	R&D expenditure divided by net sales. R&D is positively associated with TAG as a result of tax-deductibility of R&D expenses (Gupta and Newberry, 1997)
Sector (SEC)	Dummy variable which takes 1 if firms belong to specific highly regulated sectors: the pharmaceutical industry, finance, insurance and real estate, transportation, communications, electric, gas and sanitary service and take 0 otherwise.

4.3 Econometric approach

This research aims to empirically prove the effect of citizenship on tax aggressiveness; to evaluate the main hypothesis, it was necessary to validate four sub-hypotheses through four different regression models.

The dependent variable that was implemented in this study is a dummy variable that represents tax aggressiveness (TAG). This variable is 1 when the effective tax rates are below the statutory rate in the USA (35%). We consider that firms with lower effective tax rates are involved in tax minimisation strategies. Therefore, this does not mean that these firms do not pay taxes but that they may use legal ways to decrease their tax burdens. It would not be wrong to say that firms incentivise their tax strategies. However, an excessive intention to reduce taxes will inhibit the social role of businesses, as taxes are assigned to finance the welfare of society.

Recent empirical research concludes that effective tax rates capture tax aggressiveness (Slemrod, 2004; Dyreng et al., 2008; Robinson et al., 2010). Effective tax rates could be reduced by decreasing the taxable income, which makes it more appropriate to use effective tax rates to estimate tax aggressiveness (Lanis and Richardson, 2012).

Second, since book-tax differences are usually produced by tax aggressiveness practices, these differences between the taxable and the financial income can be permanent or temporary. Consequently, book-tax differences produce variation in effective tax rates because the calculation of these rates depends on these measures. Rego (2003) showed that firms may use some operations that benefit from tax incentives such as tax credit, foreign sales, etc. Third, effective tax rates capture tax aggressiveness that results from foreign operations.

4.4 Regression models

To examine the relationship between CSR and tax aggressiveness, we estimated the Tobit regression analysis. The dependent variable, which is measured by effective tax rates, is transformed into a binary variable. The estimation occurs through Tobit model. Tobin (1958) justified that his model is more efficient than a simple ordinary least squares model because the latter considers that the variance of the error term is constant for all observations. However, this assumption cannot be retained in case of a binary variable.

4.4.1 Model 1

$$\mathrm{TAG_i} = a_0 + b_1\mathrm{CSR_i} + b_2\mathrm{SIZE_i} + b_3\mathrm{LEV_i} + b_4\mathrm{R\&D_i} + b_5\mathrm{ROA_i} + b_6\mathrm{SEC_i} + e_i$$

This regression reflects the assumption of a moral obligation to promote a positive tax policy, where i = corporations for the financial year 2020; TAG = measured based on corporate effective tax rate (ETR); and CSR = the CSR score in descending order, where the firm that has the smallest score is the firm which is supposed to be the most socially responsible.

4.4.2 Model 2

$$\begin{aligned}\mathrm{TAG_i} = {} & a_0 + b_1\mathrm{SIZE_i} + b_2\mathrm{LEV_i} + b_3\mathrm{R\&D_i} + b_4\mathrm{ROA_i} + b_5\mathrm{SEC_i} + b_6\mathrm{BLH_i} \\ & + b_7\mathrm{DUA_i} + b_8\mathrm{BSIZE_i} + b_9\mathrm{BM_i} + b_{10}\mathrm{TEN_i} + b_{11}\mathrm{MO_i} + b_{12}\mathrm{IND_i} \\ & + b_{13}\mathrm{CSRC_i} + b_{14}\mathrm{AGE_i} + b_{15}\mathrm{CSRMi} + e_i\end{aligned}$$

This regression is suggested to explore the direct influence of the corporate governance proxies on TAG to compare their explanatory power with that of the direct effect of the CSR score.

4.4.3 Model 3

$$\begin{aligned}\mathrm{TAGi} = {} & a_0 + b_1\mathrm{SIZE_i} + b_2\mathrm{LEV_i} + b_3\mathrm{R\&D_i} + b_4\mathrm{ROA_i} + b_5\mathrm{SEC_i} + b_6\mathrm{BLH_i} \\ & + b_7\mathrm{DUA_i} + b_8\mathrm{BSIZE_i} + b_9\mathrm{BM_i} + b_{10}\mathrm{TEN_i} + b_{11}\mathrm{MO_i} + b_{12}\mathrm{IND} \\ & + b_{13}\mathrm{CSRC_i} + b_{14}\mathrm{AGE_i} + b_{15}\mathrm{CSRM_i} + b_{16}\mathrm{CSR_i} + e_i\end{aligned}$$

This model presents the combined effects of CSR and corporate governance variables to compare the explanatory power of variables with models 1 and 2. We aim to explore the impact of this combined effect on tax aggressiveness.

4.4.4 Model 4

$$\begin{aligned}\mathrm{TAG_i} = {} & a_0 + b_1\mathrm{SIZE_i} + b_2\mathrm{LEV_i} + b_3\mathrm{R\&D_i} + b_4\mathrm{ROA_i} + b_5\mathrm{SEC_i} + b_6\mathrm{BLH_i} \\ & + b_7\mathrm{DUA_i} + b_8\mathrm{BSIZE_i} + b_9\mathrm{BM_i} + b_{10}\mathrm{TEN_i} + b_{11}\mathrm{MO_i} + b_{12}\mathrm{IND_i} \\ & + b_{13}\mathrm{CSRC_i} + b_{14}\mathrm{AGE_i} + b_{15}\mathrm{CSRM_i} + b_{16}\mathrm{CSR_i} + b_{17}\mathrm{CSR} * \mathrm{BLH_i} \\ & + b_{18}\mathrm{CSR} * \mathrm{TEN_i} + b_{19}\mathrm{CSR} * \mathrm{IND_i} + b_{20}\mathrm{CSR} * \mathrm{DUA_i} + b_{21}\mathrm{CSR} * \mathrm{BSIZE_i} \\ & + b_{22}\mathrm{CSR} * \mathrm{BM_i} + b_{23}\mathrm{CSR} * \mathrm{MO_i} + b_{24}\mathrm{CSR} * \mathrm{CSRC_i} + b_{25}\mathrm{CSR} * \mathrm{CSRM_i} \\ & + b_{26}\mathrm{CSR} * \mathrm{AGE_i} + e_i\end{aligned}$$

Model 4 was proposed to test the moderation effect, where we included all of the interactions between the governance variables with a social score in the regression. Moderation would be supported if the model represented a statistically significant improvement over the model with only the direct effects.

5 Empirical results

5.1 Descriptive analysis

This part presents the descriptive statistics of dependent, independent and control variables. The descriptive analysis provides basic information about the variables of our study.

Table 2 Descriptive statistics

Variables	*OBS*	*Mean*	*Std dev*	*Min*	*Max*
ETR	100	0.241	0.110	0.004	0.503
CSR	100	75.582	3.507	71.200	88.36
BLH	100	0.2421	0.098	0.102	.511
BSIZE	100	11.930	1.615	7	16
IND	100	0.885	0.049	0.750	0.933
BM	100	8.730	4.313	3	32
TEN	99	3.939	2.895	1	22
AGE	100	59.160	4.505	46	76
MO	100	0.014	0.0367	0.0004	0.3546
CSRM	100	2.612	2.17	0	12
SIZE	100	12.306	2.169173	9.076	17.295
LEV	100	0.148	.1677628	0.002	0.625
ROA	100	0.036	.0645047	–0.1674131	0.338
R&D	100	0.401	3.249951	0	32.528

Table 2 displays the descriptive statistics of the variables that were involved in this study. With regards to ETR, the mean is 0.241 with a range of 0.004 to 0.503. The US corporate income tax occurs at a rate of 35%. The effective tax rates that are paid by American companies may be lower than the statutory tax rate (35%) due to exemptions, deferrals, tax credits, etc.

The average social responsibility score is 75.582. This score is weighted in terms of different pillars: climate change, employee relations, environment, ESG performance, financial, governance, human rights, and stakeholders and society.

The average of cumulated shares owned by block holders is equal to 24.21%. The block holders will protect their interests and are not concerned with protecting minority shareholders. The ownership concentration can induce agency problems and affect the tax policy of the firm.

Boards are composed of an average of 11 directors, of whom 88.5% are external directors. The number of meetings held by the board of directors is 8 on average. It can reach 32 in some firms, which induces an intensive control for transparency.

The average CEO tenure is about 4 years, and as CEOs serve for a longer period, they become more knowledgeable about their firms. However, over-stayers may produce negative results. With regards to the CEO characteristics, Table 2 shows that the average age is 59 and reaches a maximum of 76. Hence, the citizen firms are managed by older managers that can be ideal stewards for firms seeking stability

The average of managerial ownership is equal to 1.4%. An increased managerial ownership will align the interests with shareholders and contribute to a better decision making to create value. In this case, managers will pay more interest to the reputation of their companies and will not cooperate in tax aggressiveness practices.

With respect to the board characteristics variable, CSR committees meet an average of 2 times per year. This observation indicates that the majority of the board consists of external members. A high percentage of external directors is advantageous in terms of the variety of talents, experience and expertise.

Regarding the CSR variables, the displayed results show that the number of meetings that are held by the CSR committee may reach a maximum of 12 meetings per year but on average it is approximately 2.

Table 3 Frequency table (binary variables)

Variables		*Frequency*
DUA	1	74
	0	26
CSRC	1	65
	0	35
SEC	1	48
	0	52

Table 3 displays the frequency distribution of the binary variables of our study (DUA, CSRC and SEC). A large percentage of the firms of our study allow the CEOs to serve as chairman of the board. The committee of social responsibility is present in 65 firms. This result does not mean that the others firms do not contribute to the society, they can have their disclosed CSR policy. A large percentage (48 firms) of the firms of our sample belong to the sectors highly regulated: the pharmaceutical industry, finance, insurance and real estate, transportation, communications, electric, gas and sanitary service.

5.2 Regressions results

As a preliminary test, we verified the correlation and multicollinearity degree of our variables. The correlation matrix of the explanatory variables showed that there is a moderate correlation of the variables. We noted an absence of strong correlations and multicollinearity, which might bias our results.

Table 4 Model 1: measuring the direct effect of CSR on TAG

Dependent variable TAG	*COEF*	*Std error*	*t*	*P > t*
CSR	0.071	0.056	1.26	0.207
SIZE	0.161	0.223	1.43	0.074*
LEV	–0.102	0.084	–1.20	0.233
R&D	0.080	0.339	0.86	0.793
ROA	–0.230	0.167	–1.38	0.172
SEC	–0.130	0.280	–0.65	0.520
Constant	0.453	0.319	1.42	0.159
R-squared		0.218		
Prob>F		0.0050		

Notes: **Statistically significant ($p < 0.05$).
*Statistically significant ($p < 0.1$).

Table 4 displays the results of Model 1 (the effect of CSR on TAG).

The regression coefficient for CSR is positive and non-significantly associated with TAG, providing a rejection for H1. Accordingly, although the firm has been listed on the top citizen American firms, this does not seem to assure a good practice, notably for fiscal policies. It seems that the firm does not have a moral obligation to promote positive tax policy. Therefore, the social responsibility of these firms can appear as a flat draping without a real commitment in practice.

This result is consistent with the economic conjecture of these firms that promotes the interest and the maximisation of shareholder wealth as a priority, and it seems to be sometimes realised even at the expense of the others stakeholders' interests. This supposes that the social status itself can be a target, and once it is achieved the firm can deviate to discretionary decisions. In the same line of thought, Tang et al. (2018) confirmed that the performance of CSR depends on the economic condition in which firms are operating.

Thus, as these corporations showed a high CSR profile (low ranking score), it is foreseeable that they will be more cautious about being involved in tax aggressive activities. However, social status cannot be a guarantor of a legal tax commitment.

This supposes that the social status as a factor of control cannot alone assure the payment of legal tax; thus, it should be reinforced by other mechanisms of control that may assure this commitment. That is why we have added other mechanisms of control to corporate governance that may assign a real engagement in paying the legal tax. We notice that the size variable is positively associated with TAG at the 95% level of confidence, and it seems that the big firms have more ways to avoid paying high taxes compared with small firms. This can be explained by the multiple engagements that the big firm has to consign.

In model 2, we tested the effect of governance mechanisms. We found that several variables are significantly associated with TAG in regression (2).

Table 5 Model 2: effect of governance system on TAG

Dependent variable TAG	*COEF*	*Std error*	*t*	*P > t*
SIZE	0.078	0.0711	1.11	0.271
LEV	–0.093	0.086	–1.09	0.281
R&D	–0.026	0.350	–0.60	0.954
ROA	0.213	0.174	1.22	0.025**
SEC	–0.210	0.226	–0.93	0.354
BLH	0.121	0.118	1.03	0.030**
DUA	0.360	0.028	1.29	0.199
BSIZE	0.114	0.085	1.34	0.084*
BM	–0.149	0.132	–1.52	0.133
TEN	–0.045	0.191	–0.24	0.813
MO	–0.048	0.303	– 0.16	0.874
IND	–0.335	0.200	– 1.68	0.097*
CSRC	–0.030	0.049	–0.62	0.536
AGE	0. 720	0.258	0.46	0.650
CSRM	0.015	0.035	0.45	0.656
Const	–0.642	0.647	–0.99	0.324
R-squared		0.380		
Prob > F		0.0146		

Notes: **Statistically significant ($p < 0.05$).
*Statistically significant ($p < 0.1$).

The regression coefficient for BLH is positive and is significantly associated with TAG ($p < 0.05$). High levels of block holder property in the citizen firms could be beneficial for these speculative investors but could not assure a legal payment of taxes, so they seem to be passive and opportunistic investors that do not bother with long term investment in these firms.

Board size has also a positive and significant impact on TAG, which means that more members on the board results in a less efficient control effect due to the problem of power dilution.

However, the IND variable has a negative and significant effect on the degree of TAG. Independent directors will reduce tax aggressiveness and their presence reinforces corporate governance practices. Effective monitoring and sound governance will lead to a strict tax policy. This result corroborates with the findings of Lanis and Richardson (2011).

The existence of a CSR committee could assign an effective and real engagement to pay a legal tax owing to the nature of their social missions and their social tendencies and objectives, notably to help the government improve the social wellbeing of the community and the environment. Globally, the mechanisms of governance are more efficient than the social status at affecting the TAG, as shown by the statistics of model 2.

Regarding control variables, only ROA becomes significant; as expected, it has a positive association, since the payment of taxes can decrease this ratio. This can be explained through managerial discretion processes. Accordingly, the manger declines to explain a poor return on assets by the investments in social activities that will be difficult to justify.

In model 3, we tested the combined effect of citizenship level and mechanisms of corporate governance on TAG. We found that the coefficient that is associated with the CSR is still non-significant, with a higher probability than when it has been integrated alone in the first model.

Overall, the results of the regression model reject the effectiveness of the citizenship level or that of corporate governance mechanisms that control the degree of TAG. When comparing the number of positive associations with corporate governance variables to the negative ones, we can easily detect the superiority of the positive ones.

Table 6 Model 3: effect of governance mechanisms and CSR on TAG

Dependent variable TAG	*COEF*	*Std error*	*t*	*P > t*
SIZE	0.207	0.110	1.88	0.060*
LEV	–0.048	0.093	–0.52	0.607
R&D	0.002	0.035	0.07	0.945
ROA	0.068	1.901	1.77	0.078*
SEC	–0.020	0.0226	–0.90	0.372
BLH	0.176	1.728	1.84	0.066*
DUA	0.344	0.280	1.22	0.226
BSIZE	0.136	0.087	1.57	0.022**
BM	–0.430	0.320	–1.34	0.186
TEN	–0.075	0.190	–0.39	0.695
MO	–0.116	0.307	–0.38	0.707
IND	–0.349	0.199	–1.75	0.084 *
CSRC	–0.037	0.049	–0.76	0.449
AGE	0.064	0.157	0.41	0.684
CSRM	0.013	0.035	0.38	0.704
CSR	–0.403	0.328	–1.23	0.223
Const	1.088	1.550	0.70	0.484
R-squared		0.493		
Prob > F		0.0144		

Notes: **Statistically significant ($p < 0.05$).
*Statistically significant ($p < 0.1$).

Model 4 is based on the instrumental approach that integrates all variables. According to this perspective, citizenship of the US firms may become a fiscal paradise, under which the firm can minimise the taxation cost through charitable activities. Then, we test the moderation effect that will be supported if the model represents a statistically significant improvement over the models with only direct effects.

Table 7 Model 4: moderate effect of governance mechanisms and CSR on TAG

Dependent variable TAG	*COEF*	*Std error*	*t*	*t > z*
SIZE	0.250	0.075	0.33	0.041**
LEV	0.021	0.090	0.23	0.816
R&D	0.001	0.003	0.51	0.610
ROA	0.259	0.185	1.40	0.067*
SEC	–0.096	0.216	–0.45	0.656
BLH	0.3752	3.1748	0.12	0.906
DUA	1.070	0.8231	1.30	0.198
BSIZE	0.984	2.346	0.42	0.676
BM	0.609	0.779	0.78	0.437
TEN	0.866	0.482	1.79	0.777
MO	1.453	3.551	2.34	0.222
IND	–1.326	2.663	–0.70	0.489
CSRC	0.374	1.543	0.24	0.809
AGE	1.708	4.8974	0.35	0.728
CSRM	0.924	1.200	0.77	0.444
CSR	0.077	0.246	0.03	0.975
CSR*BLH	0.141	0.424	0.10	0.092*
CSR*TEN	0.112	0.620	1.80	0.076**
CSR*IND	0.175	0.102	0.74	0.061*
CSR*DUA	–0.139	0.108	–1.29	0.201
CSR*BSIZE	0.014	0.030	0.47	0.042**
CSR*BM	0.073	0.020	0.73	0.470
CSR*MO	0.237	0.357	2.34	0.022**
CSR*CSRC	0.053	0.210	0.25	0.080*
CSR*CSRM	–0.116	0.262	–0.72	0.476
Const	–1.199	5.924	–0.06	0.950
R-squared		0.678		
Prob > F		0.0010		

Notes: **Statistically significant ($p < 0.05$).
*Statistically significant ($p < 0.1$).

The regression model shows an R-squared equal to 0.678, providing support for the moderation effect. Therefore, the social activities are managed to minimise the payment of taxes. Six interactions variables are significant: CSR*BLH, CSR*TEN, CSR*IND, CSR*BSIZE, CSR*MO, CSR*CSRC.

6 Conclusions

This study investigated the relationship between CSR and tax aggressiveness. Based on the top 100 citizen firms for the financial year 2020, four regression models are used to test the theoretical hypothesis. The first model tested the influence of the CSR variable on tax aggressiveness; no significant effect has been identified. This result is surprising because it neglects the importance of the civic duty of paying taxes. The second model involved the governance variables. Through this model, the effect of CSR has been tested by using variables related to CSR committees. The empirical results verified the significance of several governance variables, particularly the CSR committee. This latter governance mechanism is more efficient than the social status of the firm at affecting the engagement to pay taxes.

In model 3, an attempt has been made to improve the understanding of the effect of CSR on tax aggressiveness. Models 1 and 2 have been integrated in one model to assess the significance of the CSR score and all governance variables. Again, the first hypothesis was not empirically supported, and model 3 fails to verify the relevance of citizenship in shaping firm reactions towards paying tax loads. Finally, model 4 involved interaction variables. The following interactions were significant: CSR*BLH, CSR*TEN, CSR*IND, CSR*BSIZE, CSR*CSRC. It seems that firms can address citizenship through their governance systems and structures. Our results corroborate the findings of the studies of Ienciu (2012) and Hoffman and Rowe (2007). Sound corporate governance practices improve the ethical behaviour of firms. However, poor corporate governance leads firms to make unethical tax decisions.

Overall, the regression models reject the direct effects and the combined effect. However, they support the moderation effect, which supposes an instrumentalist approach in minimising paying taxes. The American companies self-regulate and set the objectives, as well as the means to achieve them, while embarking on unilateral commitments that can often be of a qualitative nature.

The findings of this paper suggest that firms must have a normative and a real social engagement. They should have a sound governance system and an effective social committee that is able to mitigate the managerial discretion. In doing so, manager power and characteristics play a decisive role in undertaking ethical/unethical decisions, notably the TAG decisions. Then, the managerial objectives should be aligned with the ethical decisions via rigorous strategies and effective control.

The use of different econometric models improves the comprehension of the principal factors that can influence the tax behaviours of the corporate citizens. The tax strategy may involve many factors regarding the multidisciplinary aspects of taxation. The isolation of the effect of CSR represents a challenging debate for academics. This study has several limitations as well as opportunities for future research. The empirical results are dependent upon the chosen sample and duration. The list of best citizen firms changes on a yearly basis, panel data analysis cannot be applied to reflect the CSR and tax strategies of these firms in the long run. The lack of unanimous measures of tax aggressiveness and CSR involvement lead to divergent results.

Future academics could investigate and determine the remedies for the abusive actions of taxes and the appropriate decisions in the context of corporate citizenship.

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