

Tax avoidance, ethics, and corporate governance: A multinational study

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Abstract---The paper is informed by evidence in different jurisdictions to explore how different governance structures and board structure, pattern of ownership and regulation structures in different jurisdictions contribute to the extent and nature of tax avoidance. Based on the analysis, coherent corporate governance practices such as independent boards, transparent reporting and productive oversight are bound to mitigate aggressive tax practices particularly in the environment in which there is intense ethical values and civic oversight. Conversely, weak systems of government are also likely to encourage predatory behaviours that are not conducive to long term sustainability but instead, minimisation of taxes. The theoretical knowledge of an agency theory, the stakeholder theory and the institutional theory combined provides the study with a holistic view of ethical and governance-related topics of tax avoidance. The findings contribute to the existing debates about corporate responsibility, global tax justice, and the role of policies regarding the governance that contributes to making the business correspond to the expectations of the society.

Keywords---Tax Avoidance, Ethics, Corporate Governance.

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1. Introduction

Evasion of taxes is currently one of the most controversial issues of contemporary business conduct and policy. Although tax planning can be viewed as a legal instrument, which could help firms decrease costs and maximize shareholder value, its morality and its overall effect is also becoming a question that is being increasingly posed by governments, regulators and civil societies [1]. The scandalous cases that have implicated high profile cases of multinational businesses (MNEs) have illuminated the processes that corporations engage in to either transfer profits, exploit tax loopholes or conduct business in a low-tax regime. These practices raise some of the most fundamental issues of concern on the matter of equity, transparency and the accountability of the firms in the societies where they conduct their business. The scandal goes beyond the rule of law, and it stretches the moral limits of the business operations and stakeholder demands [2].

This is a debate which focuses on the aspect of corporate governance. Managerial decision making is centred on the independence of boards, audit committees, executive incentives, and the shareholder control of the governing structures such as decisions on the tax policies. It was theorized that good governance structures are needed to prevent over-risk-taking and opportunism and to facilitate transparency and ethical behaviour. Nonetheless, in other situations, the process of governance is ineffective. The national institutions, regulation and cultural values vary, and it affects the way the structure of governance is created and executed. This is why the governance study, and the tax avoidance are especially topical in the multinational environment and corporations are exposed to diverse pressures and demands.

The moral issues also complicate this relationship. There may be a logical sense as to why it may be economically wise to avoid taxes in the purest economic context, as it will increase the after-tax income. However, within the framework of stakeholders and society, the taxation policies that never cease can destroy trust, diminish social solidarity and cause inequality due to the economic pressure on individuals and small businesses [3]. The problem of the primacy of shareholders versus corporate responsibility discloses itself, in its turn, in the context of the discussion of tax avoidance as an ethical concern. It also demonstrates the necessity to ensure that the business activities are aligned to the sustainable development goals and postulates of world tax justice.

This is the dynamics of this that I will discuss in this paper by examining the intersection of tax avoidance, ethics and corporate governance in this case of multinational enterprises. To be more exact, it talks about how governance systems contribute to the tax behavior, the moral side of the corporate decisions, and how the two are regulated by the institutional environments [4]. Cross-national approach would provide the study with a view into how businesses operate in the complex international environment and to what degree governance may act as a cushion to morally dubious practices. Finally, the study contributes to the current debate on corporate responsibility that evidences the fact that the necessity to implement the frameworks that would help achieve the balance between the economic efficiency and social responsibility and social legitimacy exists.

2. Literature Review

Tax evasion is commonly referred to as the use of legitimate avenues to minimize tax payment as opposed to unlawful evasion of taxes [5]. Such distinction, though, does not eliminate the ethical ambiguity of aggressive tax planning that, often, exploits the loopholes in the laws or shifts the gains across the borders. Such practices, according to scholars, may enhance the shareholder value, but they will also destroy the trust of the people, increase the levels of disparity, and lower the fiscal capacity of the governments [6].

One of the determinants of the tax practices of firms is usually referred to as corporate governance. The agency theory presupposes that the managers are able to adopt aggressive strategies of maximizing the firm value or act in their own interests, e.g., financial-performance-based compensation [7]. More transparent and accountable tax policies are usually associated with good governance systems, such as independent boardrooms, effective audit committees, and shareholder control [8]. Conversely, weak governance can give rise to opportunistic management, which will result in dependence on aggressive tax avoidance policies being relied upon. These cross-country studies also suggest that the governance structures are responsive to institutional settings that the results are highly dependent on the quality of regulations, capacity to implement and cultural disposition towards implementation [9].

The issue of tax avoidance has been considered widespread being discussed both academically and within the arena of policy making, in terms of its ethical nature. The fiduciary duty may be regarded as a method of reducing the payment of taxes in terms of shareholder primacy [10]. Quite the opposite, the stakeholder theory is more concerned about more employees, customers and community's responsibilities, which is why the aggressive tax avoidance is morally questionable [11]. The recent literature identifies reputational risk and lack of legitimacy of those companies that engage in controversial tax affairs, namely, at the periods when the degree of transparency is high and the tax changes are implemented on a global scale [12]. According to this literature, ethical issues do not occupy a peripheral position but rather one of the factors that should be addressed when it comes to the tax behavior of a globalized economy.

Finally, the institutional theory contains a little useful information about cross-national disparities in tax avoidance. It is more likely that the less aggressive tax strategies will be found in firms with a strong institutional environment where social trust is enforced stringently and there is high social trust [13]. This paper shall provide a comparative analysis of MNEs by plugging these existing gaps in order to make contributions to the arguments regarding corporate responsibility and global tax justice.

3. Methodology

The research design employed in this paper is a comparative and cross-national research design where the researcher is interested in the correlation between tax avoidance and ethics and corporate governance amongst multinational enterprises (MNEs). It is desired to have both institutional settings and firm-level practices, which they are embedded in. Mixed-method approach is employed, and the quantitative analysis of secondary data is supplemented by case-studies and analysis of documents, as the source of qualitative insights [14]. With such a design, one can learn more about the phenomenon, with the merits of statistical generalizability as well as richness of the context.

Indicators of corporate governance, such as independence of the board, audit committee makeup, share concentration, and executive compensation, were obtained through Thomson Reuters Eikon and ISS databases. Tax avoidance practices, including cash ETR, effective tax rates (ETR), and book-tax difference, were created based on reported financial data [15]. The institutional indicators, including regulatory quality and enforcement effectiveness, cultural dimensions, which are country-level indicators, are based on the World Bank Governance Indicators, The Transparency Index, and the Hofstede cultural framework. The sample is a population of about 400 MNEs representing different industries and was chosen in terms of size, international representation, and availability of data. To capture both institutional and cultural variation, firms are sampled at least 10 countries that represent both developed and emerging economies. The Methodology chart flow diagram is given clearly in fig.1.

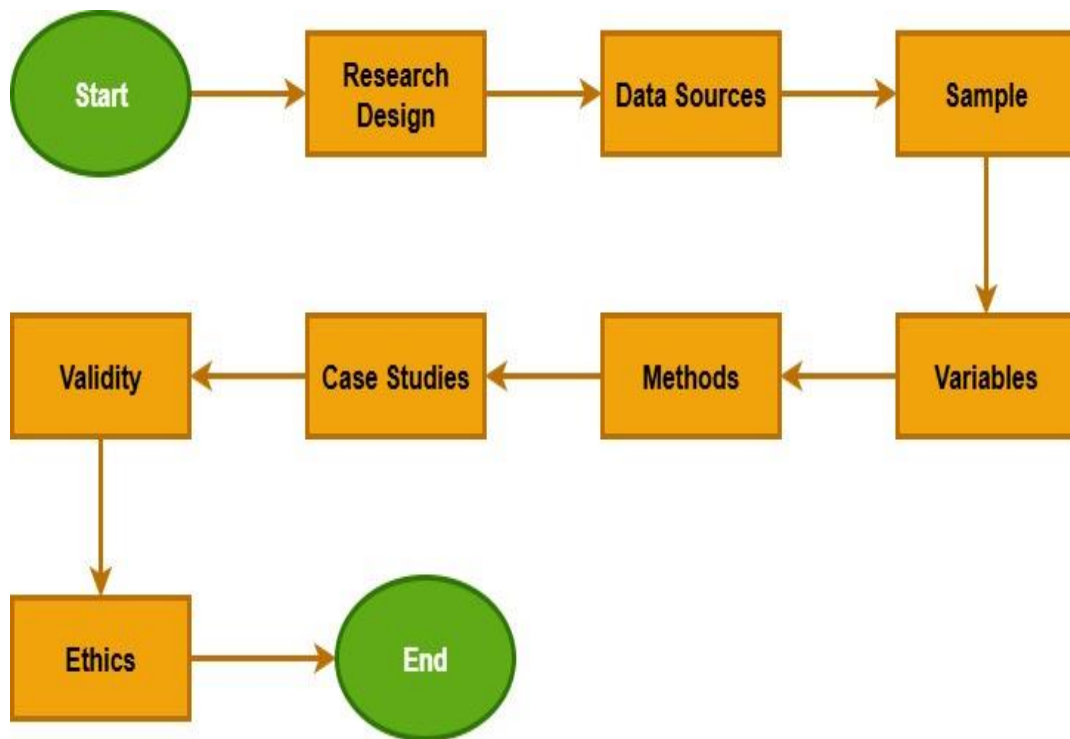


Fig. 1 Methodology chartflow diagram

Variables and Measures

- Dependent Variable: Tax Avoidance.
- GAAP effective tax rate (ETR): the income tax expense/pre-tax income.
- Cash ETR: the amount of cash paid as taxes that are divided by the pre-tax income.
- Book-tax differences (BTD): differences between accounting and taxable income, expressed in terms of total assets.
- Independent Variables: Governance of the corporation.
- Board independence: percentage of board independent directors.
- Audit committee effectiveness: audit committees, occurring and composition.
- Ownership concentration: share of the biggest shareholder.
- CEO duality: does the CEO also become board chair.

The determinants of tax avoidance have been tested using panel regression models of firm- and country-specific fixed effects to analyze the quantitative data [16]. To determine the relationship between corporate governance and tax avoidance, terms of interaction are added to test whether ethical orientation plays the moderating role. Other tax avoidance strategy checks and industry and geographical geo-checking are robustness tests. Besides this, hierarchical linear modeling (HLM) is employed to explain the nested nature of the data, in which firms are sub-units of countries with different institutional features. This allows cross-national differences to be analyzed in a more subtle way.

Case studies of the chosen firms are done to supplement the quantitative findings. Such cases are selected on both the high-governance and low-governance settings to offer differing views [17]. The company reports, press releases, media articles, and NGO publications are the data sources. The case

studies revolve around moral stories, governance actions, and stakeholder responses to tax policies, therefore enhancing the meaning of statistical findings.

Reliability and Validity

- Triangulation: This is based on multi-data sources (financial data, governance indicators, CSR disclosures) which minimizes single-source bias.
- Construct validity: By using several indicators of tax avoidance (ETR, cash ETR, BTD), one makes the measures stronger.
- External validity: A multinational sample is diverse and increases the generalizability to other industries and regions.
- Reliability: There are cross-checking of data and standardized coding procedures which guarantee accuracy and consistency.

Ethical Considerations

The research focuses on the confidentiality and transparency in the management of the data because of the sensitivity of tax avoidance. All the information is taken publicly; no violations of privacy and proprietary data are allowed. The application of ethical standards of academic research determines the direction of the analysis, and the priority of being objective in reporting findings and not being normative. There are three tables such as the Table 1. tax avoidance measures, Table 2. corporate governance indicators, Table 3. ethical orientation measures, respectively.

Table 1. Tax Avoidance Measures

Measure	Formula	Strengths	Limitations
GAAP Effective Tax Rate (ETR)	$\text{Income Tax Expense} \div \text{Pre-tax Income}$	Widely used, comparable across firms	Distorted by deferred taxes, loss years
Cash ETR	$\text{Cash Taxes Paid} \div \text{Pre-tax Income}$	Reflects actual cash outflow	Volatile year-to-year, timing issues
Book-Tax Differences (BTD)	$(\text{Accounting Income} - \text{Taxable Income}) \div \text{Total Assets}$	Captures tax planning intensity	Requires adjustments, may reflect accrual differences

Table 2. Corporate Governance Indicators

Governance Mechanism	Operationalization	Expected Effect on Tax Avoidance
Board Independence	% of independent directors on board	Lower avoidance due to stronger monitoring
Audit Committee	Presence + independence of audit members	Lower avoidance through oversight
Ownership Concentration	% shares held by top shareholder	Mixed: may reduce avoidance in developed markets, increase in weak institutions
CEO Duality	CEO also chairs the board (Yes/No)	Higher avoidance due to weaker checks

Table 3. Ethical Orientation Measures

Indicator	Source	Measurement	Role in Analysis
CSR Disclosures	Sustainability Reports, GRI	Binary (report/no report) or score	Proxy for ethical commitment
Code of Ethics	Corporate websites, filings	Existence + comprehensiveness	Proxy for ethical orientation
ESG Ratings	External agencies (Refinitiv, MSCI)	0–100 scale	Moderating variable

4. Results and Discussion

The panel regression analysis indicates several important relations between corporate governance features and tax avoidance indicators. First, aggressive tax avoidance is negatively related to board independence: the book-tax differences and the effective tax rates are more stable, and the firm has more independent directors. This implies that the independent directors are a check and balance system that limits the managerial opportunistic behavior in tax planning. On the same note, the audit committee effectiveness is linked to low cash ETR volatility, showing that effective control helps to increase financial transparency. On the contrary, there is a positive relationship between CEO duality and aggressive tax avoidance. The reported book-tax differences and the more aggressive tax-reduction strategies are found to be reported by companies that have CEOs on their boards who also serve as board chair.

Hierarchy in linear modeling also supports that country-level institutions are important in these relationships. As an example, in a setting with high regulatory implementation, governance effects are enhanced on tax avoidance and weak institutional settings dampen the effects of governance. These findings are supported in the case studies, which depict governance and ethics interaction in practice. In Northern European high-governance environments, multinational companies focus on long-term stakeholder trust, and tax policy is no exception and is presented as a subset of wider sustainability promises. In comparison, in certain emerging economies, aggressive taxation action is frequently seen by MNEs as the response to unstable institutional frameworks and uneven enforcement. Reactions among stakeholders are also not consistent: where European civil society groupings and press report on the matter subject the organization to vigorous examination, in other countries there is less debate on tax evasion, and companies have wider scope in tax planning.

These observations imply that governance and ethics cannot be entirely comprehended outside context but must be placed in the wider context of the institutions. The influence of ethical narratives and the pressure of the stakeholders on the managerial behavior in firms that have similar governance structures seems to be rather significant, which contributes to the importance of legitimacy as a factor of corporate behavior. The Country-Level Institutional Indicators defined in Table 4.

Table 4. Country-Level Institutional Indicators

Country	Regulatory Quality (World Bank)	Corruption Perceptions Index (TI)	Cultural Dimension: Individualism (Hofstede)	Expected Effect on Tax Avoidance
USA	High	67	High	Lower avoidance due to enforcement + scrutiny
Germany	High	80	Moderate	Lower avoidance, emphasis on stakeholder trust

Country	Regulatory Quality (World Bank)	Corruption Perceptions Index (TI)	Cultural Dimension: Individualism (Hofstede)	Expected Effect on Tax Avoidance
India	Medium	40	Moderate	Higher avoidance, weaker enforcement
Brazil	Medium	38	High	Mixed results, opportunistic governance

The implications of the findings are applicable to the scholarly discussion on tax avoidance in the three aspects as follows. To start with, they reaffirm the importance of the role of corporate governance mechanisms in curbing aggressive tax policies particularly board independence and audit control. This is in conjunction with prior studies that only extend to demonstrate cross-national variations. Second, the outcomes suggest the role of ethics and CSR as moderating variables, in the sense that the reputation problem and moral imperatives moderate the decisions of managers according to formal governance rules. It promotes the theories of stakeholder and defies the shareholder-centric perspectives.

Third, the results contribute to the role of the institutional settings in defining the effectiveness of the governance mechanisms. Strong regulatory environment (governance and ethics) assists in reducing tax avoidance, whereas weak institution (governance is insufficient to restrain opportunism) cannot do so. This observation conforms to the institutional theory, which focuses on being embedded in larger systems of norms, enforcement, and culture.

In practical terms, the paper recommends that policy makers ought to reinforce institutional platform to facilitate governance systems, and companies ought to consider the aspect of ethics in its decision-making process as a way of reducing reputational risk. In the case of MNEs, it is becoming increasingly necessary to reconcile the tax policies with the wider commitments to sustainability and governance to remain legitimate in a globalized economy. The comparative results are developed economies and Emerging Economies in Table 5. In fig.2, the descriptive statistics are analysed, and also regression analysis calculated in fig.3.

Table 5. Comparative Results on Developed Economies and Emerging Economies

Variable	Developed Economies	Emerging Economies
Board Independence	Strong negative relationship with tax avoidance	Weak/no significant effect
CEO Duality	Positive association with tax avoidance	Stronger positive association
Ownership Concentration	Negative association	Positive association
CSR Orientation	Firms with high CSR avoid aggressive tax practices	CSR less influential due to weaker stakeholder pressure

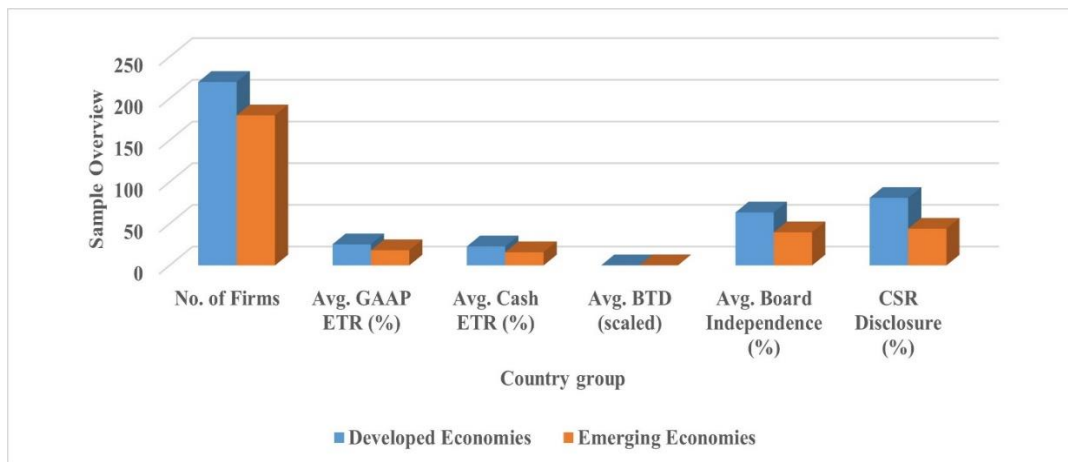


Fig 2. Descriptive Statistics (Sample Overview)

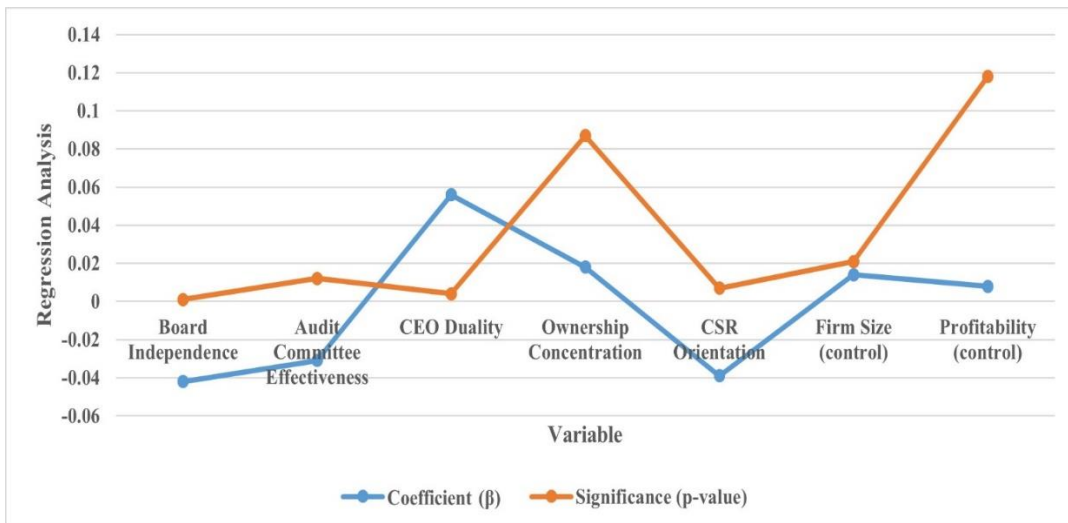


Fig. 3 Regression Analysis (Dependent Variable: Book-Tax Differences)

5. Conclusion

The aim of this study was to investigate the relationship links among tax avoidance, ethics and corporate governance in the context of multinational enterprises in a variety of institutional environments. The findings point to the fact that the corporate governance processes and, in particular, the independence of the board and audit committee oversight play a significant role in preventing aggressive tax planning.

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