

# **TAX AGGRESSIVENESS, CORPORATE SOCIAL RESPONSIBILITY, AND OWNERSHIP STRUCTURE**

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## **Abstract**

Tax is one of the most significant business costs incurred by firms, and it has a direct impact on profitability and shareholder value. Consequently, firms have financial incentives to be tax aggressive. However, tax aggressive behaviour may adversely impact a firm's reputation, an invaluable asset. Furthermore, paying one's fair share of taxes is an important component of corporate social responsibility. Hence, socially responsible firms that are concerned about preserving their good reputation should be less tax aggressive. This study investigates whether socially responsible firms are less tax aggressive, that is, whether their *talk* as defined by 'corporate social behaviours' and their *actions* as defined by 'paying their fair share of taxes' are aligned, and whether this relationship differs between family and non-family firms. Based

on archival data for 2004–2008 on a panel of Canadian firms, the results indicate that family firms are less tax aggressive than non-family firms. In addition, the findings suggest that tax behaviours are not necessarily aligned with corporate social responsibility, and that the ownership structure moderates this relationship. The findings also underscore the importance of considering corporate social responsibility dimensions separately when investigating the relationship between tax aggressiveness and corporate social responsibility.

## **INTRODUCTION**

Tax is one of the most significant business costs incurred by firms, and it has a direct impact on profitability and shareholder value. In fact, governments appropriate part of the firm's benefits through taxes to the detriment of shareholders and management (Desai, Dyck, and Zingales, 2007). Given the key objective of maximizing shareholder value, firms have financial incentives to adopt tax strategies that allow them to minimize their taxes. According to Sikka (2010), this behaviour is perceived as “a normal and commonsensical business practice” (p. 156). The significance of firms' aggressive tax behaviour is noted in a recent OECD report, which concludes that “Base erosion constitutes a serious risk to tax revenues, tax sovereignty and tax fairness for OECD member countries and non-members alike” (OECD, 2013, p. 5). However, aggressive tax planning does not always maximize firm value, as it may result in large outlays (following a tax audit), and it may damage the firm's reputation as well.

The literature on firms' aggressive tax behaviour covers a variety of topics. Some authors (e.g., Gupta and Newberry, 1997; Rego, 2003; Richardson and Lanis, 2007) analyse the variation in effective tax rate according to firms' economic characteristics (e.g., size, capital structure). Others apply agency theory to examine the

relationship between tax aggressiveness and corporate governance (Desai and Dhamarpala, 2006; Hanlon, Mills, and Slemrod, 2007), management compensation (Desai and Dhamarpala, 2006; Hanlon et al., 2007; Phillips, 2003), board characteristics (Lanis and Richardson, 2011; Minnick and Noga, 2010), and ownership structure (Chen, Chen, Cheng, and Shevlin, 2010). Still others investigate the relationship between tax aggressiveness and specific aspects of tax management (Armstrong, Blouin, and Larcker, 2012; Huseynov and Klamm, 2012; Mills, Erickson, and Maydew, 1998; Robinson, Kises, and Weaver, 2010).<sup>1</sup>

Recently, researchers are exploring the relationship between a firm's tax aggressiveness and its corporate social responsibility (CSR), with mixed results. In their qualitative studies, Preuss (2010) and Sikka (2010) argue that some firms may claim to be socially responsible but are actually tax aggressive. Similar conclusions are drawn by Huseynov and Klamm (2012) in their empirical investigation of specific CSR dimensions. However, using a global CSR rating, Muller and Kolk (2012) empirically demonstrate that multinational enterprise subsidiaries with a good reputation for CSR pay higher effective tax rates than those with a poorer reputation, whereas Lanis and Richardson (2012) contend that more socially responsible firms are less tax aggressive.

Our paper belongs to this last research stream, with the assumption that a firm has a social responsibility to pay its fair share of taxes. According to stakeholder theory, firms need to consider whether various parties are affected positively or negatively consequent to their actions or inactions (Donaldson and Preston, 1995). The government (represented by fiscal authorities) constitutes one such party, as well as society at large, and they are affected because tax aggressive behaviour deprives them of essential resources. Tax aggressiveness is defined as the reduction

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<sup>1</sup> Tax management aspects include performance measurement of tax departments (Robinson et al., 2010), tax director incentives (Armstrong et al., 2012), and investments in tax planning (Mills et al., 1998; Huseynov and Klamm, 2012).

of explicit taxes, and it includes a broad range of tax strategies, from perfectly legal tax strategies to tax evasion (Hanlon and Heitzman, 2010).<sup>2</sup>

Socially responsible firms have incentives to preserve their good image and reputation (e.g., Dyer and Whetten, 2006; Godfrey, 2005). In fact, firms that are socially responsible build a reputation to that effect and this CSR reputation constitutes an important aspect of their firm's reputation (Fombrun, 2001). Because tax aggressiveness may have consequences that can damage this reputation, socially responsible firms should therefore be less tax aggressive. However, some firms may appear to behave in a socially responsible way even as they engage in tax aggressive behaviours (e.g., Preuss, 2010; Sikka, 2010). Thus, the first research question is whether their *talk* as defined by 'corporate social behaviours' and their *actions* as defined by 'paying their fair share of taxes' are aligned. In other words, this study examines the association (congruence) between tax aggressive behaviour and CSR.

For reasons of socioemotional wealth (SEW), family and non-family firms pursue different long-term objectives. SEW refers to the set of values that a family derives from its ownership position in a firm (Berrone, Cruz, and Gómez-Mejía, 2012; Gómez-Mejía, Haynes, Nunez-Nickel, Jacobson, and Moyano-Fuentes, 2007; Gómez-Mejía, Makri, and Kintana, 2010). According to the SEW perspective, family firms make decisions that do not always follow an economic rationale, and they may behave differently than non-family firms toward risk if needed to preserve the family endowment (e.g., Berrone et al., 2012; Chrisman and Patel, 2012; Gómez-Mejía et al., 2007, 2010; Zellweger, Kellermanns, Chrisman, and Chua, 2012). Thus, family and non-family firms may adopt distinct corporate ethical values

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<sup>2</sup> Tax aggressiveness refers to any tax minimization strategies or subset of strategies, including aggressive tax planning, tax avoidance, and tax evasion. The lower the effective tax rate, the more tax aggressive firms are and the closer they get to tax avoidance and possibly tax evasion.

and socially responsible behaviours, including tax behaviours (Chen et al., 2010). Furthermore, even if all firms should be concerned about protecting their reputation (e.g., Freedman, 2010; Freeman, 1984; Mahon, 2002; Unerman, 2008), when it comes to SEW, family firms may have more incentives to preserve their good name so as to keep the family's honour intact (Berrone et al., 2012; Dyer and Whetten, 2006). This would lead to greater congruence between their CSR behaviour and tax behaviour than in non-family firms. The second research question explores the relationship between tax aggressiveness, CSR, and firm ownership structure. To investigate the research questions, a sample of Canadian firms is considered for the period from 2004 to 2008.

This investigation has several theoretical and practical implications. It contributes to the on-going debate over corporate tax aggressiveness on the international scene (e.g., Hasseldine and Moris, 2013; Lanis and Richardson, 2012; Muller and Kolk, 2012; Preuss, 2010, 2012; Sikka, 2010, 2013) by empirically testing whether corporate talk and actions are aligned. It also contributes to the family business literature by examining how family SEW affects CSR and tax aggressiveness. Furthermore, this study provides useful insights into the type of firms that tax audit efforts could target. This is a particularly critical issue, given that most countries are coping with tight budgets as well as pressure to conduct tax audits in order to generate national revenue.

The study is structured as follows. The next section presents the theoretical background and research hypotheses. Then, the research method is described followed by the presentation and discussion of the empirical results. The conclusions, limitations, and avenues for future research are presented last.

## **THEORETICAL BACKGROUND AND RESEARCH HYPOTHESES**

Because corporate tax is generally considered a business cost, management typically attempts to minimize tax expenditures

that significantly affect the firm's operating results and financial position. In fact, corporate managers have no legal or moral obligation to pay a maximum amount of tax, nor do democratic societies require them to do so (Hasseldine and Morris, 2013). A variety of tax strategies may be used, including some that respect the spirit of the law and others that are considered aggressive. Aggressive tax planning allows shareholders to maximize their wealth because the resultant tax savings belong to them (Weisbach, 2002). Nevertheless, tax aggressiveness does not always lead to maximization of firm value when the firm has to pay large outlays (including penalties and interest) following a tax audit.

The increasing focus on ethical behaviour has shed a more critical light on tax aggressiveness, which is perceived as a breach of CSR by the firms' stakeholders, including the government and society at large. The societal implications are that a socially responsible firm should pay its fair share of taxes (e.g., Christensen and Murphy, 2004; Lanis and Richardson, 2012).

### **Corporate Social Responsibility and Tax Aggressiveness**

McWilliams and Siegel (2001) define CSR as "actions that appear to further some social good beyond the interests of the firm and that which is required by law" (p. 117). More formally, the World Business Council for Sustainable Development (2000) defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (p. 3).

According to Unerman (2008), "A corporation's reputation among its economically powerful stakeholders is a valuable asset that needs to be protected and developed, and a key aspect of this reputation is stakeholders' perceptions of the CSR" (p. 362). Barnett, Jermier, and Lafferty (2006) define reputation as "observers' collective judgment of a corporation based on assessments of the financial, social, and environmental impacts

attributed to the corporation over time” (p. 34). Mahon (2002) proposes a model of reputation building based on key stakeholders (owners, employees, customers, suppliers, government, media, public interest groups, and society). These individuals and groups can affect the firm’s organization and the behaviours of its management (Freeman, 1984). As Mahon (2002) points out, reputation is built over time as the result of complex interrelationships and exchanges between a company and its stakeholders. Key stakeholders (particularly the government, the media, and public interest groups) can interfere with these relationships and potentially wield crucial influence over outcomes (Mahon, 2002). Accordingly, Freedman (2010) contends that listed firms are more concerned about potential damage to the firm’s reputation should certain tax minimization strategies, even those that are technically acceptable, be exposed in the media.

In some cases, tax considerations may encourage management to make fiscal decisions that benefit shareholders in the short term but go against the firm’s longer-term interests (Owens, 2005). In addition, the tax savings resulting from aggressive tax planning could be far less than the costs of loss of reputation, which can impair a firm’s market value. Indeed, Hanlon and Slemrod (2009) note abnormal negative returns following an announcement that firms, in particular retail firms, used tax shelters. They suggest that because of their high profile, retail firms may be more vulnerable to public perception, and more penalized for unconscionable or unpatriotic behaviour.

Firms may find it difficult to reconcile their talk with their actions. Socially responsible firms are therefore more likely to adopt a code of conduct to guide their behaviour and their relationships with stakeholders (Preuss, 2012).<sup>3</sup> However, Sikka (2010) suggests that “Companies legitimise their social credentials by making promises of responsible and ethical conduct, but

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<sup>3</sup> With respect to tax authorities, this code of conduct may cover matters such as honesty, openness, courtesy, and promptness (Williams, 2007).

organisational culture and practices have not necessarily been aligned with publicly espoused claims” (p.153). In fact, some qualitative studies (e.g., Mahon, 2002; Preuss, 2010, 2012; Sikka, 2010) show that firms may appear to be ethically and socially responsible even as they adopt tax aggressive behaviours. Similarly, Huseynov and Klamm (2012) find empirical evidence that although firms may do well on some CSR dimensions (e.g., governance, community), they may still seek to minimize their taxes (i.e., they are tax aggressive).

Because a positive reputation provides an insurance-like value to shareholders, firms have incentives to be socially responsible in order to maintain their good image (Godfrey, 2005). Moreover, from interviews with senior executives, Petersen and Vredenburg (2009) conclude that “By declaring themselves to be engaged in CSR and embarking on social and or environmental activities, it was felt that they would be perceived as being more transparent and that stakeholders would believe that they not only had integrity but that they were also competent managers” (p. 6). Thus, firms engaged in CSR are probably less tax aggressive because of their need to convey transparency, integrity, and a good reputation.

Lanis and Richardson (2012), using a global CSR rating, empirically demonstrate that more socially responsible Australian firms are less tax aggressive. Similarly, Muller and Kolk (2012), in an Indian sample, find that multinational enterprise subsidiaries with a good CSR reputation pay higher effective tax rates. The above evidence suggests that paying one’s fair share of taxes is a critical component of CSR that helps preserve the firm’s good image and reputation. Accordingly, socially responsible firms should be less tax aggressive. Hence, the first hypothesis is as follows (alternate form):

H1: There is a negative relationship between firms’ corporate social behaviour and tax aggressiveness.

### **Corporate Social Responsibility, Ownership Structure, and Tax Aggressiveness**

It is largely accepted that the main management objective of publicly held firms is to maximize shareholder value (Jensen and Meckling, 1976; Shleifer and Vishny, 1997). Thus, management-controlled firms face the typical agency problem, characterized by the separation of ownership and control, whereby managers attempt to maximize their personal utility at the expense of shareholders. The values and goals of managers can differ considerably from those of the firms' owners (Zahra, 2005). These divergent goals imply different priorities for different stakeholders (Fama and Jensen, 1983). For instance, minimizing tax costs and the associated cash outflows allows management to maximize shareholder value. Tax savings derived from adopting risky tax positions also benefit management if they are compensated for their efforts to effectively manage the organization's taxes (Chen et al., 2010).

In contrast, family firms can alleviate the agency problem because the owners have sufficient incentive and power to monitor management. Family firms therefore constitute an ideal organizational form, where the owners' and the firm's objectives are aligned (Randøy and Goel, 2003; Schulze, Lubatkin, and Dino, 2003; Zahra 2005). Family firms rely on both financial and social capital to sustain operations and enhance performance (Niehm, Swinney, and Miller, 2008). They typically blend economic considerations with traditional roles of the family social unit, which may guide them to act differently from non-family firms (Uhlener, van Goor-Balk, and Masurel, 2004). Family firms differ from non-family firms due in part to concerns about socioemotional wealth (SEW). SEW refers to the set of values that a family derives from its ownership position in a firm (Berrone et al., 2012; Gómez-Mejía et al., 2007, 2010). This value set includes maintaining the family's identification with the firm, preserving the firm's social relationships and status, perpetuating emotional attachment to the firm, renewing family bonds to the firm through

dynastic succession, and sustaining family control or influence (Berrone et al., 2012). The family business literature suggests that SEW impacts risk-taking behaviour and that family firms make decisions that do not necessarily follow an economic rationale (e.g., Berrone et al., 2012; Chrisman and Patel, 2012; Gómez-Mejía et al., 2007, 2010; Zellweger et al., 2012). For instance, family firms tend to take substantial risks in order to preserve the family endowment and avoid risky decisions that could reduce their current SEW, even if these decisions might be economically beneficial in the long term (Chrisman and Patel, 2012). Because it grants the family influence over corporate decisions that affect the family's SEW, a controlling position over the firm is a necessary condition to preserve or enhance SEW (Zellweger et al., 2012).

As underscored by Déniz and Suárez (2005), family firms are not a homogeneous group in their attitude towards CSR. On the one hand, family firms may not be socially responsible if they are more concerned about protecting their own interests than those of the general public (Dyer and Whetten, 2006). These families are "political rent seekers at the expense of broader society" (Dyer and Whetten, 2006, p. 787). On the other hand, it is widely believed that family-owned businesses are more ethical on average than non-family-owned businesses (Adams, Taschian, and Shore, 1996). According to Del Baldo (2012), the values of business owners and the social capital of family firms impact social responsibility.

Dyer and Whetten (2006) suggest that founders, shareholders, and managers of family firms are more likely to initiate a tradition of socially responsible business practices and to avoid harmful practices that can tarnish the firm's image. These actions are motivated by a desire to preserve or enhance SEW. For instance, family members may view their firm as an extension of the family itself, so they want to do well and good as members of society. Moreover, due to their strong identification with the firm, family members may fear that a poor corporate reputation would spoil the family's name (Berrone et al., 2012; Dyer and Whetten, 2006). In addition, when much of the family's wealth is tied to the

firm's profitability and the family's ownership position in the firm, damage to the firm through litigation costs and loss of reputation will greatly impact the family's wealth (Berrone et al. 2012; Dyer and Whetten, 2006; Miller, Le Breton-Miller, and Lester, 2011).

Also, because families typically have much higher ownership of family firms than professional CEOs have of non-family firms, they are more likely to benefit from a substantial portion of any tax savings (Chen et al., 2010). However, a particular feature of most tax systems is the fact that risky tax positions can go unnoticed, unless they are caught by the tax authorities. Family firms usually have much longer holding horizons than non-family firms. Therefore, the lengthy delays between tax strategy implementation and audits by tax authorities are likely to have a greater impact on family firms than on non-family firms (Chen et al., 2010), acting to deter tax aggressive behaviours by family firms.

The above arguments suggest that although family firms may have financial incentives to be tax aggressive, these incentives are strongly reduced in the face of risky tax positions, which may yield negative outcomes that can significantly impact SEW, including reputation. They also suggest that family firms may be more socially responsible than non-family firms due to the desire to protect the family's good name, image, and reputation (Berrone et al. 2012; Dyer and Whetten, 2006).

Talk and actions should therefore be more aligned (congruent) for family than non-family firms, given that socially responsible family firms should be less likely to adopt a tax aggressive behaviour. Accordingly, family ownership should strengthen the negative relationship between socially responsible behaviour and tax aggressiveness. Hence, the second hypothesis reads as follows (alternate form):

H2: The negative relationship between firms' corporate social behaviour and tax aggressiveness is stronger for family than non-family firms.

## RESEARCH METHOD

### Sample

Our sample is derived from the Canadian Social Investment Database (CSID),<sup>4</sup> which contains CSR ratings for Canadian firms listed on the TSX, including all constituents of the S&P/TSX Composite Index. The period examined is from 2004 to 2008 (1,287 firm-year observations). This period is selected to avoid confounding effects with the economic crisis that began in 2009. Excluded from the sample are firms subject to different tax regulations: firms operating in the mining, oil, and gas industries (411 firm-year observations) and income trusts (145 firm-year observations). Also excluded are observations with an unusual effective tax rate (ETR), a measure used to assess tax aggressiveness, as discussed below, including negative pre-tax book income, negative ETR, or ETR greater than or equal to 100%<sup>5</sup> (155 firm-year observations). Firms with missing information are also excluded (25 firm-year observations). The final sample comprises 168 firms listed on the Toronto Stock Exchange (TSX), for a total of 551 firm-year observations.

### Model and Variables

This study investigates the association between corporate social responsibility, ownership structure, and tax aggressiveness. More specifically, the model posits that tax aggressiveness is a function of the firm's corporate social behaviour and its ownership structure. The model also includes the following control variables: profitability, growth, size, leverage, capital intensity, R&D

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<sup>4</sup> CSID, now Sustainalytics, is published by Janzti Research Inc., an independent investment research firm that evaluates and monitors the environmental, social, and governance performance of global securities. CSID is a proprietary data source.

<sup>5</sup> These selection criteria are similar to those used in the literature (e.g., Chen et al., 2010; Lanis and Richardson, 2012).

intensity, and dummies for net operating loss, industry, and year. The empirical model for firm  $i$  at time  $t$  is (subscripts omitted):

$$\text{TAG} = \gamma_0 + \gamma_1\text{CSR} + \gamma_2\text{FAMILY} + \gamma_3\text{CSR*FAMILY} + \gamma_4\text{ROA} + \gamma_5\text{MKBK} + \gamma_6\text{SIZE} + \gamma_7\text{LEV} + \gamma_8\text{CAP-INT} + \gamma_9\text{R\&D-INT} + \gamma_{10}\text{D-NOL} + \text{YearDummies} + \text{IndustryDummies} + \varepsilon$$

**Dependent Variable.** Several measures are used in the literature to capture firms' tax aggressiveness (e.g., Chen et al., 2010; Hanlon and Heitzman, 2010; Lanis and Richardson, 2012). The measure of tax aggressiveness (TAG) used here is the firm's current effective tax rate (ETR), defined as the current income tax expense divided by the pre-tax book income (e.g., Chen et al., 2010; Lanis and Richardson, 2012). This measure captures a broad range of tax strategies, from perfectly legal strategies to tax evasion. Given that a higher ETR means lower TAG, ETR is multiplied by minus one to obtain an increasing measure of tax aggressiveness,<sup>6</sup> according to a similar approach by Lanis and Richardson (2012). Accounting data are taken from the Compustat database and supplemented by the firms' published financial statements.<sup>7</sup>

**Main Effects.** Family firms are identified according to criteria from prior studies (e.g., Anderson and Reeb, 2003; King and Santor, 2008; Miller, Le Breton-Miller, Lester, and Cannella, 2007). A firm is considered a family business when an individual or family (i.e., two or more family members) holds at least 20% of the voting rights and is the largest shareholder. In addition, one of the following conditions must be met: 1) family members from more than one generation are or have been involved in the

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<sup>6</sup> An effective tax rate (ETR) of 35% thus becomes -35%, which is lower than -25%. Using 1 minus the ETR also provides an increasing measure of tax aggressiveness. Results are the same when using this last procedure.

<sup>7</sup> Canadian firms' published financial statements are available at [www.sedar.com](http://www.sedar.com).

management; 2) several members of one family hold shares or are involved in the management; or 3) the largest shareholder (the individual who owns at least 20%) is the founder or has a family relationship with the founder. When the largest shareholder holding more than 20% of the voting rights is a corporation, the observation is classified as a family firm if the controlling shareholder of that corporation is a family; otherwise the observation is classified as a non-family firm.

Data on firm ownership were collected manually from proxy statements, in which firms must identify all shareholders having right of ownership or control or direction over shares carrying more than 10% of the voting rights. To determine whether a family member is involved in the firm's management, the proxy statement is used to obtain the identity of the board and executive members. An individual is identified as a family member if he or she shares the same last name as the owning family or is named as a family member in the proxy statement. Information about the founder of the firm was obtained from the proxy statement or the firm's website. FAMILY takes the value 1 when a family owns the firm, and 0 otherwise.

CSR ratings were obtained from the Canadian Social Investment Database (CSID), developed by Michael Jantzi Research Associates (MJRA). MJRA is a founding member of the SiRi Network, in which KLD Research and Analytics is a partner. MJRA, the Canadian counterpart of KLD Research and Analytics in the USA, provides CSR ratings for a selection of Canadian firms (see Appendix). The CSID uses similar dimensions and rating techniques to those of KLD for CSR scores as well as consistently applied index ratios (Waddock and Graves, 1997). Although the measures are not identical due to national idiosyncrasies and differences in data availability, they are both similar and practical (Thorne, Mahoney, and Bobek, 2010). The CSR score is a firm's overall rating on several social responsibility dimensions. The most salient dimensions are community and society (CSR-COMSOC),

corporate governance (CSR-CORP), employees (CSR-EMPL), environment (CSR-ENV), and customers (CSR-CUST).

**Moderating Effect.** Family ownership moderates the relationship between CSR and TAG. The moderating effect can be represented as the interaction between CSR and FAMILY: CSR\*FAMILY.

**Control Variables.** As in prior research on tax aggressiveness (e.g., Chen et al., 2010; Dyreng, Hanlon, and Maydew, 2008; Lanis and Richardson, 2012), several control variables are included in the model, and all are calculated at year-end unless otherwise noted. The model controls for firm performance (ROA, D-NOL), where ROA is the firm's return on assets defined as the ratio of the pre-tax book income to assets at the beginning of the year, and D-NOL is the presence of loss carry forward at the beginning of the year. The model also controls for the firm's growth opportunities (MKBK) and size (SIZE), where MKBK is the firm's market-to-book ratio of common shares and SIZE is the firm's natural log of the book value of assets. Because they may also affect tax aggressiveness, firms' capital structure or leverage (LEV) and asset mix (CAP-INT, R&D-INT) are incorporated: LEV is measured as long-term debt scaled by assets; CAP-INT is the firm's capital intensity defined as property, plant, and equipment scaled by assets; and R&D-INT is the firm's research and development (R&D) intensity defined as R&D expenses scaled by sales.

## **EMPIRICAL RESULTS**

### **Descriptive Analysis**

Table 1 (Panel A for the full sample, Panel B for the family and non-family samples) presents the descriptive statistics for the regression variables. Mean ETR is 26.4% for the full sample. During the period covered by the study, corporate statutory tax

rates varied from 34.1% in 2003 to 29.5% in 2008, with a mean of 32.0% for the entire period. The sample shows a lower ETR than the statutory tax rate. Family firms reported higher ETR than non-family firms (29.1% versus 24.8%, p-value .002), which suggests less tax aggressiveness than in non-family firms.

Family firms show lower CSR scores than non-family firms (4.759 versus 5.263, p-value .000), suggesting that, contrary to expectation, the family firms in this sample are less socially responsible than their non-family counterparts. Family firms' scores are significantly lower on four of the five CSR dimensions (CSR-CORP, CSR-EMPL, CSR-ENV, and CSR-CUST).

Table 1-Panel B also indicates that family and non-family firms are of similar size. Family firms are less profitable (ROA) (8.4% versus 12.4%, p-value .000) and more likely to have a net loss carry forward (D-NOL) (0.473 versus 0.286, p-value .000) than non-family firms. Family firms also show lower growth (MKBK) (2.116 versus 3.118, p-value .000), are more leveraged (LEV) (0.203 versus 0.159, p-value .001), are less capital-intensive (CAP-INT) (0.304 versus 0.349, p-value .005), and are less R&D-intensive (R&D-INT) (0.001 versus 0.025, p-value .000) than non-family firms.

### Regression Results

Table 2 presents three regression models: with control variables only (Model 1), with FAMILY and CSR main effects (Model 2), and with moderating effects (Model 3).<sup>8</sup> In Model 1, only two control variables, size and capital intensity, show a significant positive relationship with tax aggressiveness.

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<sup>8</sup> The variance inflation factors of all variables are below 10. According to Hair, Black, Babin, and Anderson (2010), this indicates that multicollinearity is not a significant problem.

**Table 1**  
Descriptive statistics

Panel A: Full sample (N = 551 firm-year observations)

	Mean	SD <sup>a</sup>	Min	Max
ETR	0.264	0.162	0.000	0.955
CSR	5.079	0.809	3.300	7.718
CSR-COMSOC	4.552	1.579	2.024	8.924
CSR-CORP	6.753	1.116	2.800	9.167
CSR-EMPL	4.345	1.194	2.000	7.511
CSR-ENV	5.219	0.949	2.954	8.267
CSR-CUST	5.547	1.224	2.524	8.333
ROA	0.109	0.104	0.002	0.783
MKBK	2.752	2.705	0.101	30.162
SIZE	8.469	1.763	4.944	13.492
LEV	0.175	0.150	0.000	0.592
CAP-INT	0.332	0.275	0.000	0.921
R&D-INT	0.016	0.057	0.000	0.624
D-NOL	0.354	0.479	0.000	1.000

**Table 1 (continued)**

Panel B: Family (N = 201 firm-year observations) versus Non-family (N = 350 firm-year observations)

	Family				Non-family				Means Difference <sup>b</sup>
	Mean	SD <sup>a</sup>	Min	Max	Mean	SD <sup>a</sup>	Min	Max	
ETR	0.291	0.164	0.000	0.955	0.248	0.158	0.000	0.955	0.043 (.002)
CSR	4.759	0.605	3.300	6.476	5.263	0.853	3.495	7.511	-0.504 (.000)
CSR-COMSOC	4.465	1.343	2.489	8.924	4.602	1.700	2.024	8.873	-0.137 (.295)
CSR-CORP	6.139	1.104	2.800	8.900	7.106	0.960	4.400	9.167	-0.967 (.000)
CSR-EMPL	3.950	0.909	2.000	6.037	4.572	1.277	2.000	7.511	-0.622 (.000)
CSR-ENV	4.991	0.872	2.954	7.669	5.350	0.967	3.002	8.267	-0.359 (.000)
CSR-CUST	5.367	1.159	2.714	8.333	5.650	1.250	2.524	8.333	-0.283 (.007)
ROA	0.084	0.057	0.003	0.348	0.124	0.121	0.003	0.783	-0.040 (.000)
MKBK	2.116	1.033	0.273	6.249	3.118	3.249	0.101	30.162	-1.002 (.000)
SIZE	8.431	1.408	5.584	11.875	8.491	1.939	4.944	13.492	-0.060 (.677)
LEV	0.203	0.138	0.000	0.582	0.159	0.155	0.000	0.592	0.044 (.001)
CAP-INT	0.304	0.233	0.002	0.789	0.349	0.296	0.000	0.921	-0.045 (.050)
R&D-INT	0.001	0.004	0.000	0.052	0.025	0.070	0.000	0.624	-0.024 (.000)
D-NOL	0.473	0.501	0.000	1.000	0.286	0.452	0.000	1.000	0.187 (.000)

<sup>a</sup> SD stands for standard deviation.<sup>b</sup> P-values are in parentheses. Significance levels are one-tailed for ETR, two-tailed otherwise.

**Table 2**  
 OLS regression analysis

	Model 1 <sup>a</sup>	Model 2 <sup>a</sup>	Model 3 <sup>a</sup>
CSR		0.001 (.476)	-0.005 (.340)
FAMILY		-0.038 (.010)	-0.135 (.111)
CSR*FAMILY			0.020 (.186)
ROA	0.104 (.208)	0.081 (.334)	0.080 (.342)
MKBK	0.000 (.917)	-0.001 (.851)	-0.001 (.820)
SIZE	0.012 (.012)	0.011 (.039)	0.012 (.029)
LEV	0.016 (.399)	0.038 (.270)	0.032 (.306)
CAP-INT	0.077 (.019)	0.064 (.034)	0.067 (.029)
R&D-INT	0.018 (.104)	0.083 (.287)	0.091 (.268)
D-NOL	0.000 (.496)	0.006 (.341)	0.005 (.362)
Intercept	-0.402 (.000)	-0.375 (.000)	-0.352 (.000)
N	551	551	551
Prob > F	.000	.000	.000
Adjusted R <sup>2</sup>	.050	.057	.057
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes

<sup>a</sup> P-values are in parentheses. Significance levels are one-tailed for CSR, FAMILY, CSR\*FAMILY, SIZE, LEV, CAP-INT, R&D INT, and D-NOL; two-tailed otherwise.

Model 2 is used to test H1, which posits a negative relationship between firms' CSR behaviour and tax aggressiveness. The coefficient for CSR is not significant. This surprising finding runs contrary to Lanis and Richardson (2012), who report that more socially responsible firms are less tax aggressive. However, it provides support for Preuss (2012), who states that "Claims to engage in CSR can hide a great deal of inconsistency in a company's approach to CSR" (p. 12), and for Sikka (2010), who finds that firms' corporate talk, in other words, socially responsible behaviours, are not aligned with their actions in terms of paying their fair share of taxes.

Model 2 also indicates that family firms are less tax aggressive than non-family firms. The coefficient of FAMILY is

significantly negatively related to TAG ( $-0.038$ ,  $p$ -value  $.010$ ). This result suggests that, irrespective of their socially responsible behaviours, family and non-family firms differ in terms of tax aggressiveness, which is in line with Chen et al. (2010).

Model 3 is used to test H2, which posits a stronger negative relationship between corporate social behaviour and tax aggressiveness for family than non-family firms. The coefficient of CSR captures the relationship between CSR and TAG for non-family firms, and the interaction term between FAMILY and CSR captures the incremental effect for family firms (Jaccard, Turrisi, and Wan, 1990). A stronger relationship between TAG and CSR is expected for family firms (i.e., a negative coefficient for CSR\*FAMILY). However, the interaction term CSR\*FAMILY is not significant. In order to gain a deeper understanding of this finding, additional tests were run.

CSR scores were categorized into three equal groups: high, middle, and low. Then, for example, firms with a high CSR score take the value 1 on CSR-HIGH, and 0 otherwise. The high and low groups were incorporated into the regression, with the middle group as reference, to test the effect of high (low) versus middle CSR ratings on tax aggressiveness. Results are presented in Table 3, showing the main effects in Model 4 and the moderating effects in Model 5.

Similar to Model 2, Model 4 indicates that FAMILY is significantly negatively related to TAG, which suggests that family firms are less tax aggressive than non-family firms. Model 4 also indicates a positive and significant relationship between CSR-HIGH and LOW groups and TAG, indicating that firms with a low CSR score are more tax aggressive than CSR-MIDDLE scored firms. This is in line with Lanis and Richardson (2012), who suggest that less socially responsible firms are more tax aggressive. However, these findings also indicate that firms with a high CSR score are more tax aggressive than CSR-MIDDLE scored firms. This result supports the finding by Sikka (2010) and Preuss (2010)

that firms may appear to behave ethically and socially responsible even as they adopt tax aggressive behaviours.

Model 5 presents the regression results for the moderating effects of family on the relationship between CSR-HIGH and CSR-LOW and tax aggressiveness. A negative and significant relationship is found between CSR-HIGH\*FAMILY and TAG and between CSR-LOW\*FAMILY and TAG, suggesting that both high and low socially responsible family firms are less likely to adopt tax aggressive behaviours than their non-family counterparts. To better understand the implications of this finding, we computed the Wald test for the family coefficient for CSR-HIGH and CSR-LOW using the following formulation:  $CSR-HIGH + (FAMILY*CSR-HIGH)$  and  $CSR-LOW + (FAMILY*CSR-LOW)$  respectively.

The two family coefficients are not significant, indicating that CSR is not the driving force behind the tax behaviour of family firms, and that other factors appear to be more salient. For instance, in order to preserve SEW, family firms may not always make rationale economic decisions. This lack of economic rationality may lead family firms to be tax-risk averse, and consequently to pay higher taxes. In addition, due to family firms' longer holding horizons, the long delays before a potential tax audit are likely to have a greater impact on family firms than on non-family firms, which may lead family firms to be less tax aggressive.

### **CSR Dimensions**

Differences between family and non-family firms may imply different priorities for key stakeholders, which would be reflected in the scores on the CSR dimensions related to the various stakeholders. Thus, in Model 6, the firm's total CSR score is replaced by the firm's scores on the five main dimensions of CSR (CSR-COMSOC, CSR-CORP, CSR-EMPL, CSR-ENV, and CSR-CUST) (see Appendix). Results are presented in Table 4.

**Table 3**  
OLS regression analysis

	Model 4 <sup>a</sup>	Model 5 <sup>a</sup>
CSR-HIGH	0.065 (.001)	0.089 (.000)
CSR-LOW	0.029 (.048)	0.074 (.001)
FAMILY	-0.028 (.035)	0.024 (.167)
CSR-HIGH*FAMILY		-0.062 (.048)
CSR-LOW*FAMILY		-0.096 (.003)
ROA	0.086 (.309)	0.065 (.440)
MKBK	-0.001 (.852)	-0.000 (.957)
SIZE	0.004 (.250)	0.004 (.260)
LEV	0.064 (.151)	0.063 (.154)
CAP-INT	0.059 (.045)	0.064 (.033)
R&D-INT	0.082 (.286)	0.104 (.240)
D-NOL	0.003 (.434)	0.006 (.358)
Intercept	-0.354 (.000)	-0.378 (.000)
N	551	551
Prob > F	.000	.000
Adjusted R <sup>2</sup>	.076	.087
Industry dummies	Yes	Yes
Year dummies	Yes	Yes

<sup>a</sup> P-values are in parentheses. Significance levels are one-tailed for CSR-HIGH, CSR-LOW, FAMILY, CSR-HIGH\*FAMILY, CSR-LOW\*FAMILY, SIZE, LEV, CAP-INT, R&D INT, and D-NOL; two-tailed otherwise.

Similar to Model 2, and as expected, Model 6 indicates a negative and significant relationship between FAMILY and TAG. However, none of the CSR dimensions is statistically significant.

Model 7 in Table 4 shows a negative and significant coefficient for CSR-CORP (-0.024, p-value .008) and CSR-EMPL (-0.021, p-value .031) and a positive and significant coefficient for CSR-COMSOC (0.026, p-value .003) and CSR-CUST (0.015, p-value .041). These results for the main effects suggest that non-

family firms that are more engaged in their community and more committed to their customers are more tax aggressive, whereas non-family firms that adopt more responsible corporate governance practices and are more committed to their employees are less tax aggressive. It appears that although non-family firms might adopt positive social initiatives toward the community and their customers in order to build their reputation, they are less concerned about the potentially negative impacts of tax aggressive behaviours (Dyer and Whetten, 2006).

With respect to the moderating effects, a negative and significant coefficient is found for CSR-COMSOC\*FAMILY (-0.041, p-value .001) and CSR-CUST\*FAMILY (-0.026, p-value .017) and a positive and significant coefficient for CSR-CORP\*FAMILY (0.036, p-value .006) and CSR-EMPL\*FAMILY (0.046, p-value .008). These results indicate a weaker relationship between tax aggressiveness and CSR behaviour for family than non-family firms. To validate this finding, the significance (Wald test) of the combined effects (e.g., CSR-COMSOC + (CSR-COMSOC\*FAMILY)) was estimated. Results show no statistical significance for any of the combined effects, suggesting that CSR dimensions do not impact tax aggressiveness in family firms.<sup>9</sup>

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<sup>9</sup> Tests were run using two other measures of tax aggressiveness: TAG1 and TAG2. TAG1 is the cash effective tax rate (e.g., Chen et al., 2010), defined as the tax paid divided by the PTBI, and TAG2 is the current tax expense divided by the cash flow from operations (Lanis and Richardson, 2012). For non-family firms, both TAG1 and TAG2 confirmed that these firms are more tax aggressive when they are more engaged in their community (CSR-COMSOC), and less tax aggressive when they adopt more responsible corporate governance practices (CSR-CORP). TAG2 also confirmed that these firms are less tax aggressive when they show more responsible behaviours toward their employees (CSR-EMPL). For family firms, tests using TAG2 confirmed a much weaker relationship between TAG and CSR-CORP and between TAG and CSR-EMPL, as well as between TAG and CSR-COMSOC.

**Table 4**  
OLS regression analysis

	Model 6 <sup>a</sup>	Model 7 <sup>a</sup>
CSR-COMSOC	0.006 (.188)	0.026 (.003)
CSR-CORP	-0.009 (.107)	-0.024 (.008)
CSR-EMPL	-0.004 (.335)	-0.021 (.031)
CSR-ENV	0.003 (.390)	-0.005 (.324)
CSR-CUST	0.003 (.326)	0.015 (.041)
FAMILY	-0.046 (.004)	-0.238 (.036)
CSR-COMSOC*FAMILY		-0.041 (.001)
CSR-CORP*FAMILY		0.036 (.006)
CSR-EMPL*FAMILY		0.046 (.008)
CSR-ENV*FAMILY		0.019 (.160)
CSR-CUST*FAMILY		-0.026 (.017)
ROA	0.084 (.327)	0.095 (.263)
MK/BK	-0.000 (.900)	0.001 (.768)
SIZE	0.009 (.104)	0.010 (.075)
LEV	0.037 (.279)	0.054 (.202)
CAP-INT	0.073 (.023)	0.080 (.014)
R&D-INT	0.075 (.306)	0.114 (.223)
D-NOL	0.006 (.350)	0.001 (.486)
Intercept	-0.339 (.000)	-0.281 (.006)
N	551	551
Prob > F	.000	.000
Adjusted R <sup>2</sup>	.055	.082
Industry dummies	Yes	Yes
Year dummies	Yes	Yes

<sup>a</sup> P-values are in parentheses. Significance levels are one-tailed for CSR-COMSOC, CSR-CORP, CSR-EMPL, CSR-ENV, CSR-CUST, FAMILY, CSR-COMSOC\*FAMILY, CSR-CORP\*FAMILY, CSR-EMPL\*FAMILY, CSR-ENV\*FAMILY, CSR-CUST\*FAMILY, SIZE, LEV, CAP-INT, R&D INT, and D-NOL; two-tailed otherwise.

In summary, non-family firms with good corporate governance practices and responsible corporate social behaviours towards their employees are less tax aggressive. This suggests that non-family firms who promote ethical behaviours internally are more inclined to pay their fair share of taxes. For instance, the negative relationship between CSR-CORP and tax aggressiveness for non-family firms suggests that the use of socially responsible corporate governance practices minimizes the use of tax aggressive strategies by these particular firms. This effect is weaker for family firms, which is in line with Adams et al. (1996), who report that non-family firms are more likely than family firms to use formal (e.g., a formal code of ethics) rather than informal methods to promote ethical behaviours.

This finding is also in line with recent calls by accounting firms for boards of directors to be cautious about tax risks, especially financial and reputation tax risks, given their potential effect on the firm's financial health (e.g., Ernst & Young, 2011; KPMG, 2011). Consequently, boards of directors of non-family firms with good corporate governance practices would appear to be concerned about the impact on shareholder wealth of loss of reputation due to aggressive tax behaviours. Desai et al. (2007) and Chen and Chu (2005) suggest that tax aggressive behaviours designed to minimize a firm's tax expenses may reduce the effectiveness of internal control and induce managerial diversion. In the case of family firms, the agency problem is less dominant, and the board of directors' oversight of tax risks may not be as efficient, whereas in non-family firms, good corporate governance reduces tax aggressiveness.

## **CONCLUSIONS, LIMITATIONS, AND AVENUES FOR FUTURE RESEARCH**

Because tax is a significant cost, firms have financial incentives to be tax aggressive. Yet paying one's fair share of taxes is an important aspect of corporate social responsibility (CSR).

Furthermore, tax aggressive behaviour may adversely impact a firm's reputation, an invaluable asset. Therefore, socially responsible firms that are concerned about preserving their good reputation should be less tax aggressive. However, when a firm's talk and actions are not aligned, this association may not hold. For family firms, the financial incentives for tax aggressiveness are much lower in the face of risky tax positions, which may yield negative outcomes that can significantly impact SEW, particularly the family's name and reputation. Based on these assumptions, this study investigates whether socially responsible firms are less tax aggressive and whether the relationship between CSR and tax aggressiveness is affected by family ownership.

Overall, the findings suggest that a firm's tax behaviour is not necessarily aligned with its CSR, and that ownership structure can moderate the relationship between CSR and tax aggressiveness. More specifically, the results suggest that less socially responsible non-family firms are more tax aggressive. However, highly socially responsible non-family firms are also more tax aggressive. In addition, the results suggest that a family firm's CSR is not the driving force behind its tax behaviour. Furthermore, the findings underscore the importance of considering CSR dimensions separately, as they may impact tax aggressiveness differently, and sometimes in opposite (and unexpected) directions.

This may explain why the current results do not confirm Hypothesis 1, which posits that socially responsible firms are less tax aggressive. More specifically, non-family firms that are more engaged in the community and society and more committed to their customers appear to be more tax aggressive. This suggests that non-family firms want to project a good image to the external world, but that their talk and actions are not necessarily aligned. However, non-family firms that adopt socially responsible corporate governance practices and responsible behaviours toward their employees appear to be less tax aggressive. The above results on CSR dimensions do not hold true for family firms.

We may offer some recommendations in light of these findings. When planning tax audit efforts, tax authorities should be alert to the possibility that corporate talk might not necessarily be aligned with corporate actions. Accordingly, greater consideration should be given to good governance practices of non-family firms. In addition, focusing on overall perceptions of CSR to the detriment of other factors can be misleading.

This study has some limitations. First, like other studies that attempt to measure tax aggressiveness, ETR is calculated based on information reported in the firms' financial statements, and may not represent the actual tax situation. Second, as in other studies on family firms, the definition of what constitutes a family firm influences the classification of the sample firms into the family firm category, thereby impacting the results (Mazzi, 2011). Furthermore, the study examines a sample of Canadian firms. Although nothing indicates that tax aggressiveness differs between Canada's economy and other open economies, cultural factors (Hofstede, 2001) could influence SEW, which would limit the generalization of findings on family firms.

Two avenues for future research would be to replicate this study in a sample of non-Canadian firms using a similar CSR rating and to examine the effects of varied degrees of ownership on family firms' behaviours.

## **APPENDIX**

### **CANADIAN SOCIAL INVESTMENT DATABASE**

The framework used by Michael Jantzi Research Associates (MJRA) to track and report on corporate social and environmental performance includes a comprehensive set of social and environmental indicators. This framework is based largely on a stakeholder approach, and is similar to the framework used by the SiRi Network. For each CSR dimension, examples of topics for which indicators are gathered are listed below. Dimensions are scored by assigning a numerical score to each indicator for each

firm. Each indicator has a scoring range as well as a weight, which is intended to reflect the importance of the indicator for the firm's peer group. Each grouping of indicators at each hierarchy level is also assigned a weight. The scoring scheme for each indicator was defined based on best practices. In some areas of social and environmental performance, such as corporate governance and diversity programs, best practices do not differ from industry to industry. In other areas, such as pollution prevention initiatives, MJRA defines best practices on an industry-specific basis.

CSR DIMENSION	EXAMPLES OF TOPICS COVERED
Community and society (CSR-COMSOC)	Reporting on Community Charitable Donations Program Community Relations Impact on Society
Corporate governance (CSR-CORP)	Corporate principles and values Code of business conduct Board composition Executive compensation Share structure
Employees (CSR-EMPL)	Employee Programs and Benefits Diversity Health and Safety Union Relations
Environment (CSR-ENV)	Exposure to Environmental Issues Environmental Management Systems Environmental Public Reporting Impact and Initiatives Environmental Regulatory Compliance Environmental Impact of Product/Service
Customers (CSR-CUST)	Policy on safety of product/service and treatment of customers Impact on Customers

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