# BOOK TAX DIFFERENCES AND CORPORATE SOCIAL RESPONSIBILITY OF MANUFACTURING FIRMS

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***Abstract:*** *The objective of this study is to explore the nexus of book tax aggressiveness and corporate social responsibility of quoted consumer goods manufacturing firms on the Nigerian Stock Exchange (NSE). The study adopted the ex post facto research design. The population is comprised of quoted consumer goods manufacturing firms on the Nigerian Stock Exchange. The sample was purposively delimited to twenty-one firms in the consumer goods manufacturing sector. The study relied on secondary sources of data retrieved from the published annual reports of the respective companies from 2011 to 2019. The data were analysed using both descriptive and inferential statistical techniques. The hypotheses were analysed using multiple regression; specifically the Fixed Effects Model (FEM) technique. The results showed that the temporary and permanent book-tax differences had a negative non-significant relationship with the corporate social responsibility of quoted consumer goods firms. Based on these, the study recommends among others that policymakers and regulatory bodies should formulate policies that strike a balance between enhancing CSR and tax payments; this would safeguard firms' investors from manipulative tax practices with their potential negative effect on firm valuation and promote societal development.*
**Keyword:** *CSR, Book Tax, Goods, firms, NSE.*

## Introduction

Book Tax Differences (BTDs) are differences in the amount of accounting profit compared to fiscal profit or taxable income. According to Tye and Abdul Wahab (2018), BTDs can be further broken down into two components that indicate variations in BTD sources: permanent differences and temporary differences. According to the Company Income Tax Act (CITA), all private and public limited corporations in Nigeria are required to pay income tax.Companies with operations in different jurisdictions are linked to the disparities in the statutory tax rates (Tye& Abdul Wahab, 2019). According to Chen, Chen, Cheng, and Shevlin (2010), BTDs are a type of corporate tax aggression that refers to managerial strategies used to decrease taxable revenue through tax planning actions that may be legitimate, dubious, or even unlawful.BTDs hastens the erosion, and eventual disappearance, of valuable regulatory commons (Bird & Davis-Nozemack,2018).Corporate tax aggressiveness has a wide range of negative effects on businesses (Majeed& Yan, 2019). It could harm a company's profitability (Katz, Khan, & Schmidt, 2013), firm value (Chang, Hsiao, & Tsai, 2013), stock prices (Hanlon &Slemrod, 2009), cost of capital (Lim, 2011), and reputation (Fisher, 2014).

CSR is currently receiving a lot of attention from academics and professionals (Holder-webb, Cohen, & Wood, 2009). According to Shafai, Amran, and Ganesan (2018), the public is pressuring businesses to take responsibilities for environmental protection, community development, and workplace safety. There is mounting pressure from stakeholders on manufacturing firms to adopt corporate social responsibility (CSR) practices (Abbas, 2020; Abbas &Sagsan, 2019). CSR has been motivated from public pressure organisations (Wijethilake, 2017), climate change (Li, Zhao, Zhang, Chen, & Cao, 2018), rising consumer awareness, and national and international rules (Abbas, 2020) all played major roles in the movement.This refuted the claim made by traditional economists that a company's only goal is to maximise shareholder value. The sole social obligation of a firm, according to critics led by Milton Friedman, "is to use its resources and engage in activities designed to increase its profits..." (cf. Friedman, 1970). According to studies, CSR has advantages for businesses, including a better brand name, reputation, and image. Tax aggressiveness and the CSR nexus, according to Abdelfattah and Aboud (2020), have not gotten much attention in underdeveloped nations. Over the years, a number of well-known multinational firms, including Microsoft, Google, Amazon, Apple, Starbucks, etc., have come under fire for taking socially irresponsible activities as a result of corporate tax dodging. The inclusion of tax-related information in the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and the Dow Jones Sustainability Index is proof of the significance of tax to a company's CSR behaviour (Bird & Davis-Nozemack, 2018).In the literature, there is an intriguing question about the direction and relevance of an empirical link between tax evasion and CSR practises (Bird & Davis-Nozemack, 2018). Sheffer (2013) stated that the "linkage between corporate tax avoidance and CSR has not yet been drawn" and that the gap should be quickly closed in the present. Existing studies have argued that an empirical analysis of the effect of CSR on tax avoidance should focus on the distinct components of CSR (*cf.* Lanis & Richardson, 2012; Laguir, Staglianò, &Elbaz, 2015; Col & Patel, 2019). Studies mainly conducted in Nigeria on CSR have utilised the content analysis procedure or aggregated total corporate social responsibility expenditure; others, have also broken down CSR into social, economic and environmental dimensions. In this regard, studies that attempted to explore the link between tax avoidance and CSR followed suit. Furthermore, prior studies have suggested that the use of alternative corporate tax avoidance proxies yields differing results (Annuar, Salihu, & Obid, 2014; Salihu, Obid, & Annuar, 2014). And focusing on a single proxy may cause vital information on the dimensionality of corporate tax avoidance behaviour (Nog a& Schnader, 2013). Existing studies such as Umobong and Agburuga (2018) and Mgbame, Chijoke-Mgbame, Yekini, and Yekini (2017) focus on the ETR. The study focuses on several alternative proxies of corporate tax avoidance to fully understand the effect of CSR on tax aggressiveness.

Against, this backdrop the issues above are tackled in the current study which to the best of the researcher's knowledge, there is a dearth of empirical evidence.The specific objectives of the study are, as follows:

1. To determine the relationship between temporary book-tax difference and corporate social responsibility of quoted consumer goods firms.
2. To ascertain the relationship between permanent book-tax difference and corporate social responsibility disclosure of quoted consumer goods firms.

## Review of Related Literature
### Conceptual Review
### Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) disclosure is an emerging trend in corporate transparency (Abdelfattah & Aboud, 2020). The literature highlights and documents several definitions of the concept of CSR. According to the Confederation of Swedish Enterprise, there "is an increasing pressure on companies to respect human rights, fundamental labour law principles and basic environmental standards, regardless of where in the world they operate". This responsibility is broadly referred to as Corporate Social Responsibility (CSR). Raimi (2017) opines that CSR is a corporate-focused strategy to address the cultural, social, environmental and economic aspects of the business's operational environment. According to Hou (2019), the significance of CSR has steadily risen in the corporate manufacturing sector.

Ferrell, Liang, and Renneboog (2016), there are two main views on CSR. The first is the *good governance view*, stating that socially responsible firms can follow value-maximizing practices (e.g., Edmans, 2011). The second is the *agency view*, which states that the desire of some firms to participate in CSR activities is an indicator of agency problems (e.g., Bénabou & Tirole, 2010; Masulis & Reza, 2015). In line with CSR, a firm can not only be responsible to shareholders but also to other internal and external stakeholders (Sikka, 2010).

Tax aggressiveness "is where a firm can either explicitly or implicitly reduce its tax burden without incurring additional expenses from tax investigations, in both short- and long-term" (Kim &Im, 2017, p.1). Corporate tax avoidance refers to "the downward management of taxable income through tax planning activities" (Lanis & Richardson, 2012).Tax aggressiveness has major consequences for governments in developed and developing countries (Sikka, 2010). Tax is the allocation of "scarce resources to a non-shareholder stakeholder" (Watson, 2015, p. 2). The lower taxes cause a reduction in the funds available to provide infrastructure, healthcare, and education (Van Renselaar, 2016). As a result, society bears the indirect costs of such activities. The payment of taxes represents the most elementary responsibility towards the state and the people who reside therein (Christensen & Murphy, 2004).
Specifically, Chytis (2019) divided temporary differences into (a) taxable temporary differences, which result in payment of higher taxes in the future and recognition of - Deferred Tax Liabilities (DTL) in the present, and (b) Deductible Temporary Differences leading to higher tax paid in the current year and lower in future periods for which a - Deferred Tax Asset (DTA) is recognized. DTA and DTL in the Statement of Financial Position incorporate the estimated future tax effects resulting from Temporary Differences between Book and taxable income (Chytis, 2019). The Total Tax Burden on book income (profit/loss) for a period is calculated as*Tax Expense* = Current Tax Expense (+/-) Deferred Tax Expense of the period

Permanent differences are differences between the pre-tax book and taxable income that never reverse (Hanlon, Krishnan, & Mills, 2012). This difference occurs because some transactions are not included in the calculation of taxable income based on tax regulations. Permanent differences are also associated with aggressive tax reporting (Balakrishnan, Blouin, &Guay, 2019); such that, shareholders may value permanent differences as risks that affect shareholders' wealth (Tye& Abdul Wahab, 2019). Using empirical data from the U.S., Watson (2015) finds that firms with a low CSR rating will have a higher tax aggressiveness, i.e., the book-tax differences would be high. This is also consistent with Lanis and Richardson (2012) using an Australian data set that finds a negative and statistically significant association between CSR disclosure and tax aggressiveness. The simultaneity between CSR and tax aggressiveness was also confirmed in the study by Hajawiyah, Kiswanto, Suryarini, Yanto, and Harjanto (2022) using the Indonesian dataset to find that CSR negatively affected tax aggressiveness. This is suggestive that firms with a high CSR disclosure have lower levels of tax aggressiveness. Their simultaneous approach also documented evidence that tax aggressiveness proxied using permanent BTD is negatively associated with CSR. Yet other studies document a positive association between CSR and tax aggressiveness (Marsdenia & Martani, 2018; Zeng, 2018).

## Theoretical Framework

### Stakeholder Theory

Stakeholders include 'groups or individuals who benefit from or are harmed by corporate action' (Melé, 2008). Stakeholders encompass shareholders, employees, customers, suppliers, creditors, government, as well as the community in which companies operate. In a much broader classification, Figar and Figar (2011) identified eight categories of stakeholders which are investors, suppliers, employees, customers, governments, communities, politicians and trade associations. Therefore, stakeholders are much wider than shareholder groups, which only include the providers of equity for the company (Galant & Cadez, 2017).

### Agency Theory

Jensen and Meckling (1976, p. 308) define an agency relationship as a "contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". In the business context, agents correspond to managers, whereas principals correspond to shareholders (Shafai, Amran, & Ganesan, 2018). The justification of the theories were as follows: firstly, stakeholder theory, to explain managerial reason for engaging in CSR and, secondly agency theory was used to explain managerial practice of tax planning as responsibility for preparation of financial statements lies with them.

## Empirical Review

Irokwe and John-Akamelu (2023) conducted a study titled 'Corporate Social Responsibility and Tax Avoidance: Empirical Evidence from Quoted Consumer Goods Firms'. The study adopted the ex post facto research design, and twenty-one (21) firms were selected from the Nigerian Exchange Group (NGX), using the judgmental sampling method, to examine the effect of social responsibility disclosure on the effective tax rate of quoted manufacturing firms, as well as to determine the effect of social responsibility disclosure on the book-tax difference of quoted manufacturing firms. The results showed a significant effect of social responsibility disclosure on the ETR; and, no significant effect of social responsibility disclosure on the BTD.

Oboh and Nosa (2021) conducted a study titled 'Corporate social responsibility and tax avoidance in Nigeria'. This study's data came from a census of all the banks listed on the Nigerian stock exchange's trading floor from 2013 to 2018. In order to gather information on the hypothesis variables, this study used firm annual reports, which were mostly obtained from the NSE website. The data were analysed using multiple regression technique. CSR was found to have a positive non-sgnificant relationship with tax avoidance at 5% level of significance.

Ortas and Álvarez (2020) conducted a study titled 'Bridging the gap between corporate social responsibility performance and tax aggressiveness: The moderating role of national culture'. The sample of firms utilised in the study was drawn from 30 countries which constituted an unbalanced panel of 2,696 companies. The study focused on the use of secondary data sources over the years 2002 to 2014. The data were analysed using multiple regression techniques. The results showed evidence of a negative relationship betweencorporate social responsibility elements (corporate social performance, corporate environmental performance and corporate governance performance) with tax aggressiveness.

Vacca, Iazzi, Vrontis, and Fait (2020) undertook a study titled 'The role of gender diversity on tax aggressiveness and corporate social responsibility: Evidence from Italian listed companies'. The sample consisted of 168 firms listed on Milano Stock Exchange between 2011 and 2018. The study relied on secondary data obtained from AIDA Bureau Van Dijk database. The data were analysed using the logit regression model. The results showed a non-significant positive effect of tax aggressiveness on CSR reporting. Secondly, the interaction between the percentage of women on the board and tax aggressiveness was positive but not significant; while, the interaction between female CEO and tax aggressiveness was significant and negative.

Alsaadi (2020) undertook a study titled 'Financial tax reporting conformity, tax avoidance and corporate social responsibility'. The sample comprised firms domiciled in Europe. The study relied on secondary data and the duration was from 2008 to 2016. The data were analysed using regression analysis. The results showed a positive association between CSR and tax avoidance. In addition, the results revealed that firms in low financial-tax conformity jurisdictions were more likely to engage in CSR when compared to firms in high financial-tax conformity jurisdictions.

Abdelfattah and Aboud (2020) conducted a study titled 'Tax avoidance, corporate governance, and corporate social responsibility: The case of the Egyptian capital market'. The final sample comprises 735 firm-year observations from among the EGX 100 Egyptian firms from 2007 to 2016. The study relied on secondary data which was analysed using the Ordinary Least Squares estimation procedure. The results showed a significant negative effect of the effective tax rate on CSR disclosure. However, temporary book-tax differences (BTD) had a significant positive effect on CSR. In addition, the presence of family or foreign members also had a significant positive effect on CSR disclosure.

Kristiadi, Kurniawati, and Naufa (2020) undertook a study titled 'Corporate social responsibility and tax aggressiveness: Evidence from Indonesia'. The sample comprised 67 manufacturing firms listed on the Indonesian Stock Exchange. The study relied on secondary data obtained from annual reports from 2008 to 2019. The data were analysed using the Generalized Method of Moments (GMM). The results showed that CSR has a non-significant negative effect on ETR. However, ETR had a significant negative effect on CSR.

Karlberg (2020) conducted a study titled 'The effects of CSR and female presence in corporate governance on firm tax avoidance'. The sample comprised U.S. industrial firms covered in the intersection of ISS (RiskMetrics) and Compustatdatabases. The study relied on secondary financial statement data retrieved from Compustat North America's annual files from 2002 to 2017. The author employed the use of multiple regression (OLS) technique to analyse the data. The results showed that CSR had a non-significant negative effect on cash ETR using the OLS; while, the presence of at least one female board member had a significant positive effect on cash ETR.

Mashuri and Ermaya (2019) conducted a study titled 'The effect of tax aggressiveness and media exposure on corporate social responsibility disclosure with profitability as moderated variables'. The study utilised a purposive sample of 80 industrial companies on the Indonesia Stock Exchange (IDX). The study relied on secondary data from 2014 to 2018. The data were analysed using multiple linear regression. The results showed that ETR has a significant positive effect on CSR disclosure; while, media exposure has a significant negative effect on CSR disclosure. Lastly, profitability moderates the relationship between both variables in influencing CSR disclosure.

## Methodology

By examining the correlations between the variables, the study uses a quantitative methodology to identify the factors that influence the phenomenon of interest (Creswell, 2007). Ex-post facto research design is used for the study since it is the most suitable. According to Asiriuwa, Aronmwan, Uwuigbe, and Uwuigbe (2018), an ex-post-facto research design monitors events (i.e., company operations reduced to numbers) after they have already happened (the reporting year). The investigation begins after the event has already happened without the researcher interfering, i.e., after the past has passed (Onwumere, 2009; Salkind, 2010). Manufacturing companies that were publicly traded on the Nigerian Stock Exchange (NSE) made up the study's population. The data for this study was obtained from secondary sources. The number of firms included in the various sectors on the Nigerian Stock Exchange that constituted the population of the study is shown in the table below:

Table 1: Number of firms by sector

| S/No | Sector | Number of firms |
|---|---|---|
| 1 | Agriculture | 5 |
| 2 | Conglomerates | 5 |
| 3 | Construction/Real Estate | 9 |
| 4 | Consumer Goods | 21 |
| 5 | Financial Services | 52 |
| 6 | Health Care | 10 |
| 7 | ICT | 9 |
| 8 | Industrial Goods | 13 |
| 9 | Natural Resources | 4 |
| 10 | Oil & Gas | 12 |
| 11 | Services | 25 |
| | **Total** | **165** |

Source: The Nigerian Stock Exchange Website (2020)

The study employed a purposive sampling technique and the entire consumer goods manufacturing firms were selected premised on the fact that this sector had the highest number of non-financial firms as shown on the Nigerian Stock Exchange (NSE) website.

Table 2: Summary of sample selection criteria

| Sector | Number of firms |
|---|---|
| Publicly traded firms in the NSE | 165 |
| Less: Financial services | 52 |
| Less: Natural resources | 4 |
| Less: Oil & Gas | 12 |
| Less: Services | 25 |
| | 72 |
| Less: Others | 51 |
| Final sample | 21 |

*Source: The Nigerian Stock Exchange Website (2020)*

The study employs several techniques to analyse the data. First, descriptive statistics were calculated, which include the mean, median, standard deviation, minimum, maximum values, Skewness-Kurtosis statistics, etc. The descriptive statistics enabled the provision of an overview of the variables utilised in the study (Kim, Park, & Wier, 2012). Second, a pair wise correlation analysis is conducted to examine the relationship among the variables. Third, multiple regression is used to validate the hypotheses. According to Hair, Black, Babin, Anderson, and Tatham (2006) multiple regression is a 'statistical procedure to analyse the relationship between a singular dependent variable and several independent variables by estimating coefficients for the equation on a straight line'. All the analyses were performed using the E-Views version 9 statistical software.

**Model Specification**

$$CSRD_{it} = \beta_0 + \beta_1 TEMPBTD_{it} + \beta_2 PERMBTD_{it} + \beta_3 FSIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 FAGE_{it} + \varepsilon_t \quad \ldots\ldots\ldots\ldots 1$$

On the left-hand side is the dependent variable (CSRD) of the above specification; and, on the right-hand side are the main independent variables (TEMPBTD and PERMBTD). The control variables (FSIZE, LEV, ROA and FAGE) are included in the main model shown above.

**Data Analysis**

Table 3: Descriptive statistics of independent variables

| | TEMPBTD | PERMBTD | FSIZE | LEV | ROA | FAGE |
|---|---|---|---|---|---|---|
| Mean | 2.08E+09 | -3.13E+10 | 17.10500 | 0.430452 | 3.998986 | 31.36842 |
| Median | 2.85E+08 | -1.94E+09 | 17.33171 | 0.116338 | 5.129238 | 35.00000 |
| Maximum | 4.45E+10 | 1.12E+11 | 120.1700 | 12.95956 | 25.87864 | 55.00000 |
| Minimum | -1.11E+10 | -3.69E+11 | 5.280000 | 0.000000 | -98.64701 | 3.000000 |
| Std. Dev. | 6.73E+09 | 9.00E+10 | 8.514892 | 1.426411 | 15.03209 | 12.80896 |
| Skewness | 3.914285 | -2.589264 | 10.35013 | 6.677826 | -3.961580 | -0.718933 |
| Kurtosis | 22.52265 | 8.886403 | 127.1378 | 52.16857 | 25.87145 | 2.584049 |
| Jarque-Bera | 3152.246 | 437.9516 | 112850.6 | 18495.94 | 4174.393 | 15.96339 |
| Probability | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000342 |
| Sum | 3.55E+11 | -5.36E+12 | 2924.955 | 73.60728 | 683.8266 | 5364.000 |
| Sum Sq. Dev. | 7.69E+21 | 1.38E+24 | 12325.58 | 345.8902 | 38413.84 | 27891.79 |
| Observations | 171 | 171 | 171 | 171 | 171 | 171 |

Source: E-Views 10

The table above shows the mean value of the selected proxies for corporate tax aggressiveness the average value of temporary BTD is $2.08 \times 10^9$, i.e., two billion eighty million. The average permanent BTD is $-3.13 \times 10^{10}$, i.e., negative thirty-one billion three hundred million. The mean value of the natural logarithm of total assets for the firms in the sample is 17.10; that of leverage was 0.43.The average value of LEV indicates that the capital structure of the firms in the sample was approximately 43% debt financed. The average ROA value was estimated at 3.99 approximately 4 which is suggestive that the majority of firms in the sample had net incomes in excess of the total assets. The average firm age was 31 years. The skewness statistics showed a negative value for the ROA and FAGE; while, the FSIZE and LEV were both positive values. The standard deviation of ROA also exceeded its mean, indicating high deviations from the mean value respectively.

**Test of Hypotheses**

To test the hypotheses, the study employed the FEM regression consistent with the Hausman specification output shown above. The FEM detailed results are shown in the Table below, as follows:

**Table 4: Analysis output for the test of hypotheses**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.598672 | 0.074726 | 8.011561 | 0.0000 |
| TEMPBTD | -9.78E-13 | 1.27E-12 | -0.767007 | 0.4443 |
| PERMBTD | -1.18E-13 | 2.14E-13 | -0.552520 | 0.5814 |
| FSIZE | -0.002609 | 0.000649 | -4.018768 | 0.0001 |
| LEV | -0.012010 | 0.012416 | -0.967300 | 0.3350 |
| ROA | -0.000424 | 0.002261 | -0.187487 | 0.8515 |
| FAGE | 0.007538 | 0.002148 | 3.509572 | 0.0006 |
| | | | | |
| R-squared | 0.597581 | | | |
| Adjusted R-squared | 0.524922 | | | |
| F-statistic | 8.224454 | Durbin-Watson stat | | 0.967059 |
| Prob(F-statistic) | 0.000000 | | | |

Source: E-Views 10

**Hypothesis One**

***Ho1:*** There is no significant relationship between temporary book-tax difference and corporate social responsibility of quoted consumer goods firms.

The *coefficient* and *t-statistic* of our variable of interest (TEMPBTD) are negative and statistically non-significant [*t-statistic* (-0.767007), *p* (0.4443, >.05)]; thus, the null hypothesis is accepted and the alternate rejected. Therefore, "There is no significant relationship between temporary book-tax difference and corporate social responsibility of quoted consumer goods firms." The first hypothesis showed a negative non-significant relationship between temporary BTD and corporate social responsibility disclosure. This is not consistent with studies by Abdelfattah and Aboud (2020) in Egypt which found that temporary book-tax differences (BTD) had a significant positive effect on CSR. Makni, Affes, and Trigui (2019) on a sample of firms from the European Union also reported a positive statistically significant effect of CSR on BTD at 1%. This finding is supportive of the fact that "claims to engage in CSR can mask many inconsistencies in a company's CSR approach" (Sikka, 2010, p.12).

### Hypothesis Two

***Ho₂:*** There is no significant effect of permanent book-tax difference on corporate social responsibility disclosure of quoted consumer goods firms.

The *coefficient* and *t-statistic* of our variable of interest (TEMPBTD) are negative and statistically non-significant [*t-statistic* (-0.552520), *p* (0.5814, >.05)]; thus, the null hypothesis is accepted and the alternate rejected. Therefore, "There is no significant effect of permanent book-tax difference on corporate social responsibility disclosure of quoted consumer goods firms."

The second hypothesis showed a negative non-significant effect of permanent BTD on corporate social responsibility disclosure. This is somewhat consistent with the study by Kim and Im (2017) in Korea that found CSR had a negative significant effect on BTD and tax savings. The results were also consistent for high and low CSR firms (i.e., active-CSR and passive-CSR firms).Lanis and Richardson (2018) found showed that the interaction of the proportion of outside directors on the board and CSR performance has a negative effect on tax aggressiveness. However, contrary to this, the study by Makni, Affes, and Trigui (2019) showed that the economic, social and corporate governance performance dimensions were positive and significantly related to BTD. Another study by Marsdenia (2018) using a sample of firms listed in the Indonesian Capital Market reported a positive effect of CSR on BTD.

### Conclusion and Recommendations

The study concludes that there is a nexus of book tax aggressiveness and CSR of quoted consumer goods manufacturing firms on the Nigerian Stock Exchange (NSE). The sample was delimited to firms in the consumer goods sector of the Nigerian Stock Exchange (NSE) for the selected time period of the study. The secondary data was analysed using multiple linear regression technique. The main findings from empirical data analysis in were the non-significant negative effects of the temporary and permanent BTDs on corporate social responsibility. The study makes the following recommendations:

1. It is advised that managerial oversight be improved. Alternatively, CSR actions may be utilised as a means of encouraging risk management to improve a firm's reputation. Shareholders can also create models that incorporate CSR externalities into share price calculation. By increasing CSR-related activities, managers can protect themselves from any potential negative effects of tax avoidance.
2. Investors and potential investors are advised to pay close attention to managers of publicly traded firms' CSR policies as this could be a hint of the manager's tax avoidance behaviour and warn of future reputational issues.

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