THE DYNAMIC OF CORPORATE SOCIAL RESPONSIBILITY, TRUST, REGULATION AND TAX AVOIDANCE

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FACULTY OF BUSINESS AND ECONOMICS
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THE DYNAMIC OF CORPORATE SOCIAL RESPONSIBILITY, TRUST, REGULATION AND TAX AVOIDANCE

ABSTRACT

The current study investigates the linkage of corporate social responsibility (CSR) and tax avoidance. Previous studies in this area focus on interpreting empirical result as intention of undertaking CSR, whether corporations undertake CSR in good faith or CSR as a means to conceal unethical behaviour, relying on assumption that corporations view tax avoidance as immoral. The current study differs in that it intends to address the issue of corporate ethical behaviour if corporations view paying tax as part of socially responsible act or otherwise. This is done by examining the linkage of CSR decoupling and tax avoidance. CSR decoupling is a concept similar to terminologies such as organizational hypocrisy, organizational facade, CSR faking and green-washing to explain corporate ethical behaviour that involves misalignment between their policies and actions. In addition, the current study investigates if two elements of country-specific characteristics, namely trust in the government and regulation, could have influenced the relationship between CSR decoupling and tax avoidance. Grounded on neo-institutional theory, the current study intends to close the gaps by investigating the relationship of CSR decoupling and tax avoidance in three different dimensions of CSR which are community, employee and environment, following dimensions established by CSRHub. Based on a sample of 52 listed Malaysian corporations for the financial years of 2009 to 2019 using archival method, the findings provide new evidence that overall, CSR and tax are not related, except community CSR because corporations who exaggerate more in CSR disclosure engage less in tax avoidance. Had CSR and tax related for sharing similar morality feature, corporations would have exaggerate through CSR disclosure to commit tax avoidance. The finding also implies that corporations actually do not view avoiding tax as immoral, hence decision to avoid tax is done without having to exaggerate through

CSR for any so called need to conceal the immoral behaviour of tax avoidance practice. The finding provides new evidence that corporations incline to use community related CSR to improve CSR disclosure when they decide to engage in tax avoidance. The findings also reveals that trust in the government and regulation do not indirectly affect overall issues on CSR and tax decision at corporate level. However, the finding suggests that with trust in the government, corporations engage more in tax avoidance but exaggerate less through environmental CSR disclosure. The findings lend credence to the belief that the relationship between CSR and tax is not limited solely on the morality feature, but more than that. Decision of CSR and tax at corporate level may be driven by other factors than mere contribution to society. Although the finding concludes the argument in the area of study that overall CSR and tax are not related, however, community related CSR decoupling affects tax avoidance, hence future researchers could further explore this measurement in other economic environment to investigate its impact in different setting. The study provides theoretical and practical implications particularly to future researchers in the area, corporations and the government.

Keywords: Corporate Social Responsibility (CSR), tax avoidance, CSR decoupling, trust, regulation

ABSTRAK

Kajian semasa menyiasat kaitan tanggungjawab sosial korporat (TSK) dan pengelakan cukai. Kajian terdahulu dalam bidang ini mentafsir keputusan empirikal sebagai niat untuk melaksanakan TSK, sama ada syarikat menjalankan TSK dengan niat baik atau TSK dilakukan untuk menyembunyikan tingkah laku yang tidak beretika, bergantung kepada andaian bahawa syarikat melihat pengelakan cukai sebagai tidak bermoral. Kajian semasa berbeza di mana tujuan utama kajian ini adalah untuk menangani isu tingkah laku etika korporat jika syarikat melihat pembayaran cukai sebagai salah satu tindakan bertanggungjawab sosial atau sebaliknya yang dilakukan dengan mengkaji kaitan penyahgandingan TSK dan pengelakan cukai. Penyahgandingan TSK ialah konsep seperti kepura-puraan organisasi, pemalsuan TSK dan pembasuhan hijau untuk menjelaskan tingkah laku etika korporat yang melibatkan ketidakselarasan antara dasar dan tindakan mereka. Di samping itu, kajian semasa menyiasat jika dua elemen ciri khusus negara, iaitu kepercayaan kepada kerajaan dan peraturan, boleh mempengaruhi hubungan antara penyahgandingan TSK dan pengelakan cukai. Berdasarkan teori neo-institusi, kajian semasa berhasrat untuk menutup jurang kajian terdahulu dengan menyiasat hubungan penyahgandingan TSK dan pengelakan cukai dalam tiga dimensi berbeza TSK iaitu komuniti, pekerja dan persekitaran, mengikut dimensi yang ditetapkan oleh CSRHub. Berdasarkan sampel 52 syarikat Malaysia yang tersenarai bagi tahun kewangan 2009 hingga 2019 menggunakan kaedah *archival*, penemuan kajian ini memberikan bukti baharu bahawa secara keseluruhan, TSK dan cukai tidak berkaitan, kecuali TSK komuniti kerana syarikat yang berlebihan dalam pendedahan TSK kurang terlibat dalam pengelakan cukai. Sekiranya TSK dan cukai berkongsi ciri moral yang sama, syarikat akan berlebihan dalam pendedahan TSK untuk melakukan pengelakan cukai. Dapatan ini juga memberi bayangan bahawa syarikat sebenarnya tidak melihat pengelakan cukai sebagai tidak bermoral, justeru keputusan untuk mengelak cukai dilakukan tanpa perlu berlebihan melalui TSK untuk menyembunyikan amalan pengelakan cukai yang tidak bermoral. Penemuan ini memberikan bukti baharu bahawa syarikat cenderung menggunakan TSK berkaitan komuniti untuk membesar-besarkan apabila mereka memutuskan untuk terlibat dalam pengelakan cukai. Penemuan juga mendedahkan bahawa kepercayaan kepada kerajaan dan peraturan tidak secara tidak langsung mempengaruhi isu keseluruhan mengenai TSK dan keputusan cukai di peringkat korporat. Walau bagaimanapun, penemuan menunjukkan bahawa dengan kepercayaan kepada kerajaan, syarikat lebih banyak terlibat dalam pengelakan cukai tetapi kurang membesar-besarkan melalui pendedahan TSK alam sekitar. Penemuan ini menguatkan kepercayaan bahawa hubungan antara TSK dan cukai tidak terhad semata-mata kepada ciri moral, tetapi lebih daripada itu. Keputusan TSK dan cukai di peringkat korporat mungkin didorong oleh faktor lain selain daripada sumbangan semata-mata kepada masyarakat. Walaupun penemuan ini menyimpulkan hujah dalam bidang kajian bahawa keseluruhan TSK dan cukai tidak berkaitan, namun, penyahgandingan TSK berkaitan komuniti mempengaruhi pengelakan cukai, justeru pengukuran ini dalam persekitaran ekonomi lain untuk menyiasat kesannya dalam persekitaran yang berbeza boleh diterokai. Kajian ini memberikan implikasi teori dan praktikal khususnya kepada penyelidik, syarikat dan kerajaan.

Kata Kunci: tanggungjawab sosial korporat (TSK), pengelakan cukai, penyahgandingan TSK, kepercayaan, peraturan

DEDICATIONS

THIS Ph.D THESIS IS EXCLUSIVELY DEDICATED TO:

My Late Father
Abdul Wahab Abdul Rahman

My Mother
Latifah Ahmad

My Husband
Muhammad Khalis

My Superhero Son
Khaled

My Elder Sister
Noor Maimun

My Younger Sisters
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FE	:	Fixed Effect
RE	:	Random Effect

CHAPTER 1: INTRODUCTION

1.0 Background

Corporate social responsibility (hence forth in the thesis is regarded as "CSR") is nothing new in corporate world today. Rapid development of CSR has extended beyond mere contribution to community but contribution for human resources and environment to boot. CSR has becoming a must-have business model that its absence today to a certain extent is strange, considering that it is a voluntary act. Particularly for most listed corporations, corporate act of being socially responsible is materialised as part of corporate sustainability disclosure alongside their financial statements with at least contribution to community as minimum disclosure. Researches have been conducted to understand factors that drive corporations to act responsibly, amongst others is pressure from various stakeholders such as corporate peers, investors, climate activists, customers, suppliers and the government. In Malaysia for instance, CSR activities among the government, non-governmental organizations and business sectors are likely to be influenced by several bodies who involve actively in CSR activities. These bodies include the Economic Planning Unit and the Ministry of Finance, who set tax incentives and budget allocations for CSR-targeted initiatives; the Securities Commission and Bursa Malaysia, who managed the stock exchange and regulatory framework for corporations that incorporate CSR reporting requirements; the Roundtable for Sustainable Palm Oil, who brings together NGOs, governments, palm oil suppliers and purchasers to tackle the subjects such as social and environmental sustainability in relation to the palm oil production; the ACCA, who publishes sustainability reporting guidelines in addition to hosting the annual sustainability reporting award; and Business Council for Sustainability and Reporting Malaysia, who integrates business leaders from various industries to address global sustainability agenda (UNICEF, 2012). Theoretically, CSR is synonym with corporations acting morally as they have wider responsibilities than merely making money for shareholders.

Whilst CSR is meant for society, tax is a cost for most business model today. Often public argues transparency on the part of the government in managing tax to benefit society. Having said that, it is fair to consider tax as having similar feature of CSR which is a return to society. In spite of the good nature of tax, tremendous evidences prove that corporations involve in tax planning to minimize tax, to a certain extent they could even go beyond mere utilization of tax incentives offered by the government, down to finding loopholes in the tax laws for legality but to avoid tax. One of the simple illustrations involving tax avoidance can go such that corporations are willing to involve in complex business structure by holding their establishment in different jurisdictions only to avoid paying tax. Similar to CSR, the current business is modelling corporations to embrace tax avoidance as acceptable business norm. While evading tax is illegal and hence committing it is a crime and unethical, avoiding tax on the other hand is accepted in corporate world since committing it is not a crime. If corporations engage in CSR to give back to society and act ethically, honouring the act of giving back to society and the ethicality should result in similar act of not engaging in tax avoidance. However, past studies have proved that corporations involve actively in CSR while at the same time avoiding tax (Sikka, 2010; Sikka, 2013; Hasseldine and Morris, 2013; Zeng, 2019; Mao, 2019; Davis et al, 2013; Davis et al, 2016; Lanis and Richardson, 2012; 2013; 2015; Laguir et al., 2015; Preuss, 2010). Therefore, arising out of this phenomenon of corporate decency paradox, it is crucial to understand if the act of avoiding tax in actual fact is considered as ethical or otherwise from the eyes of the corporate world. Are CSR and tax actually related at corporate level for their similar feature of morality? This misalignment of corporate ethical act opens the door for further scrutiny particularly on ethical behaviour of corporations.

On top of the morality feature that links CSR and tax avoidance, corporate moral behaviour may as well be driven by externalities. In spite of the debate that both CSR and tax at corporate level are perceived as carrying similar feature of morality that represent ethical behaviour of corporations, macro environment such as trust in the government and regulation may also have influenced the decision of corporations to act ethically. Empirical studies have proved that trust in the government affects tax behaviour in the sense that tax payment to the government is not an issue should trust in the government prevails. Payment of tax to the government to honour responsibility to wider community is sound judgment in practical matters if trust in the government is not apparent issue. Diminished confidence in the government could affect decision of corporations to pay tax, eventually giving rise to acceptable practice of avoiding tax. On the other hand, regulation plays important role as a monitoring tool to ensure compliance to the law. Although tax is synonym with ethicality when it comes to its contribution to wider community, tax has been to date mandated by statute out of voluntary. Regulation is imposed to ensure collection of tax, along with a penalty should it is violated. Empirical studies have proved that regulation sanction influences tax behaviour. Therefore, the current study intends to investigate these macro environment of trust in the government and regulation in the linkage of CSR and tax. If CSR and tax are related, do trust in the government and regulation indirectly influence the relationship between them? Investigation of these factors that could possibly drive corporate ethical act provides further insight on ethical behaviour of corporations.

1.1 Issues and Motivation of Study

This subsection explains the issues and motivation of study. The current study is motivated by a reading on an interesting debate of Sikka (2010; 2013) and Hasseldine and Morris (2013) in regards to an article of Smoke and Mirror. In the debate, Sikka

(2010; 2013) argues that there is misalignment between corporate action and their claim when corporations' claim of being socially responsible[1] is paradoxical to their tax behaviour, particularly tax avoidance. Surrounding issues on corporate tax behaviour, often do it relates to tax evasion and tax avoidance. Tax evasion is an explicit behaviour of incompliance with the tax laws to evade tax where committing it is a crime and illegal, while tax avoidance[2] is a rigorous effort to minimize tax by exploiting loopholes in the tax laws often in ways not intended by the government (Sikka, 2010, 2013; Hasseldine and Morris, 2013). Even though both are related to ethical issue, emphasis on different scope of immorality between tax evasion and tax avoidance is to be made out clear to avoid readers from quick judgement that both are tarred with the same brush of immorality (Hasseldine and Morris, 2013). In simple words, tax evasion is illegal and hence committing it is an explicit immoral, while tax avoidance is not illegal and hence committing it is a perceived immorality. For example, a group of people perceive this lawful act of avoiding tax as immoral, irresponsible, unethical and even unpatriotic (Jenkins and Newell, 2013; Hoi et. al., 2013; Preuss, 2010).

Since tax avoidance practice is considerably lawful act that committing it is not a crime, acceptable behaviour of this common practice in corporate world is deemed costly to society as corporations are seen exploiting a social contract between them and society at the expense of the society (Weisbach, 2002; Jenkins and Newell, 2013; Hoi et. al., 2013; Preuss, 2010). Tax collection by the government that has fundamental purpose of resourcing the country, financing ways of tackling poverty and distribution of wealth to the poor is reduced when corporations are not paying fair share of taxes by avoiding tax. This tax imposed on corporations as part of society where their business operations belong to, and who are making profits out of society, will eventually flows back to the society.

[1] The author regards it as a promise of acting responsibly including the responsibility of paying "democratically agreed" taxes.

[2] Example of common tax avoidance strategies are transfer pricing, corporate structure and assets ownership arrangements, and thin capitalization (Benari, 2016; Jenkins and Newell, 2013; Becker et. al., 2012; Buettner and Wamser, 2007; Bartelsman and Beetsma, 2003; Clausing, 2003; Desai et. al., 2005).

Thus, the exploitation of the said social contract can be explained when corporations who are supposedly honour this payment of tax, but in reality avoiding tax, impairing appropriate inflows of this main public resource back to the society. In line with this, we could understand increasing awareness in the past years of the tax avoidance issues and its effect in the reduced fiscal revenue. For example, literature on the corporate tax avoidance has emerged and becoming a common topic of discussion among academia, government and non-government institutions including media (Finer and Ylonen, 2017; America, 2016; Dallyn, 2016; Jenkins and Newell, 2013; Sikka and Willmott, 2010).

Coming back to the article Smoke and Mirror, Sikka (2010) argues that the earlier said paradox of which he labels as corporate hypocrisy, is a result of systemic pressure to maximise profit and reward directors (Sikka, 2010). The basic idea is that CSR and tax payment is a return to society and that both should align at corporate level, however in reality both are paradoxical. This is when linkage of CSR and avoiding tax comes into picture, explained by the said corporate hypocrisy. CSR is often addressed as a form of responsibility of corporations towards their stakeholders which goes beyond profit orientation and adherence to the law (Bachmann and Ingenhoff, 2016; Bachmann and Ingenhoff, 2013; Elkington, 1998; Carroll, 1991; Pincoffs, 1988; Freeman, 1984), even though in many past literature, no standard definition of CSR is established (Carroll, 2008; Crane et. al., 2008; Lee, 2008; Marrewijk, 2003). Today, CSR is often used as a medium of reflection of corporations' ethical behaviour, communicated often through their websites in the form of separate CSR reports and commonly supplementary to financial statements in annual reports (Capriotti, 2011; Maignan and Ralston, 2002; Esrock and Leichty, 1998), by which this disclosure of CSR disseminates perception that the corporations are moral persons (Bachmann and Ingenhoff, 2016). In this way, corporations contemporarily secure their competitive advantage through this publicly shown ethic that focuses beyond traditional motivation of shareholders and profits (Whait, Christ, Ortas, and Burritt, 2018).

In the effort to reconcile the above said hypocrisy (Sikka, 2010; 2013), CSR disclosure is claimed acting as medium of meeting public expectations and showing ethical behaviour for protection against external environment threats such as public scrutiny and media publicity (Sikka, 2010). Sikka (2010) convinces that the tendency to increase profit by avoiding tax will continue to remain in the social system as a result of corporate competition as well as booming industry[3] that offers advisory service to avoid taxes. Given overall idea of the contradiction, it implies that in corporate world, tax seems a transfer from shareholders to the country rather than a return to society (Sikka, 2010). Return to providers of financial capital in terms of dividend is seen as reward to be maximised, however return to social capital in terms of tax is seen as cost to be minimized. Nevertheless, Hasseldine and Morris (2013) in a response to the Smoke and Mirror, argue that it is fruitless effort to further investigate distinction between "letter" of law and "spirit" of law, as looking for intention in obeying the law violates the only way of making sure tax is collected, which is through imposition of tax by statute. Corporations are deemed as having the same rights as individual and protected under the act[4] for exercising liberty in managing their possession and affairs as they see fit. Although the authors (Hasseldine and Morris, 2013) support the rights of corporations to reduce their tax burden as free entities possessing the rights to leverage the tax incentives enacted and offered by the law maker, they do not however entirely deny that the linkage of CSR and tax avoidance is unnecessary, but in fact emphasize the importance and worthiness of ongoing research in this area (Hasseldine and Morris, 2013; Avi-Yonah, 2008).

[3] Including accountants, lawyers and financial services experts who leverage technical skills that seek to normalize avoidance of taxes (Sikka, 2010).
[4] For example, in the UK, under both the 'Convention for the Protection of Human Rights and Fundamental Freedoms' (as amended) and the UK Human Rights Act 1998, a company 'is entitled to the peaceful enjoyment of his (sic) possessions' (Protocol 1, Article 1) (highlighted by Hasseldine and Morris (2013)).

Deliberate highlight of the debate in the Smoke and Mirror above is intentional as the argument establishes an understanding of how CSR and avoiding tax is related. This is due to the fact that although key players such as the Organization for Economic Cooperation and Development (OECD), social advocates, investigative journalist, whistle blowers and other corporate stakeholders who have known to urge corporations into addressing their tax practices as part of their CSR (Christensen and Murphy, 2004; Jenkins and Newell, 2013; McIntyre et al., 2011, 2014) due to the "*corrosive impact of tax avoidance*" (Sikka, 2013), effort is still needed to make clear how tax avoidance and CSR are related to each other as the linkage of these two strategies can hardly be seen directly absence of explanation. Also, it is important to make clear that CSR; tax avoidance; and the linkage of CSR and tax avoidance are three different independent area of studies, and so do the scope of literature surrounding these area of studies. For instance, it is interesting to come to a knowledge that tax avoidance is one of the branches of CSR literature that has come to prominence in the last 15 years but remains poorly understood (Amidu et al, 2016).

Albeit circumstance showing many multinational corporations are socially responsible in the course of their business conduct, CSR efforts to date has been on, but not limited to environmental, labour and human rights issues, devoid of focusing on tax as part of their CSR issues (Sikka, 2010, 2013; Jenkins and Newell, 2013). In agreement, Preuss (2010) in his attempt to investigate corporate claim of socially responsible act, analyses corporate codes of conduct of 20 listed corporations in the Forbes Global 2000 finds that taxation issue is not even present in any code of conduct of the selected sample size except for only two corporations, however with a vague remark[5] on their taxation matter. In an assessment of the importance of tax to corporate stakeholders, there are corporations who demonstrate taxation as among the least important aspect of their

[5] The author notes these statements in his study written "even their codes do not go beyond a vague reference to 'compliance with tax rules and procedures' (XL Capital) and meeting "financial reporting, regulatory, tax and legal obligations" (Wachovia)".

accountability reports (Davis et al, 2013).[6] To date, prior studies on the linkage between CSR and tax avoidance evidence mixed results, which is further discussed in later chapter of this thesis.

In summary, these past studies prove positive relationship, negative relationship and even no relationship between CSR and tax avoidance. Leveraging mostly on legitimacy theory, agency theory and stakeholder theory, the results vary in different geographical context. Overall, there are some significant views to explain the mixed results. For example, positive relationship between CSR and tax avoidance indicates that corporations are using positive effect of CSR (Godfrey 2005; Godfrey et al. 2009) as a tool to conceal managers' discretional and opportunistic behaviour of avoiding tax (Hoi et al. 2013) as well as a tool to address tax aggressiveness issue (as legitimacy strategy or risk management strategy) to maintain corporate reputation. Negative relationship indicates that corporations are honouring their tax obligation and view paying tax the same way they view CSR activities. No relationship between CSR and tax avoidance is also possible as long as the investment in CSR activities and engaging in tax avoidance is both beneficial for corporate performance and for a similar purpose of maximizing shareholders' wealth and to increase the firm's value.

Malaysia would offer advantage in the analysis due to the fact that Malaysia has been experiencing economic restructuring following a recent major change in the government during its 14th general election held on May 9, 2018. This major turning point in Malaysia's 60 years history implies trust issue that citizen has for the former government. For example, although some cases on alleged corruptions surrounding issues such as 1MDB, abuse of power by former ministers, etc, are still on the High Court trials, public opinions have shown biased views surrounding the cases (for example, through comments on social medias, articles on news websites, etc), inclining towards opinion

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[6] Including Intel, UOS and The Coca-Cola (Davis et al, 2013).

that the former government is corrupted and the new government takeover is a result of desperate need to revamp the overall Malaysian political system and to sustain a transparent government through zero corruption. In an effort of the new government to restore critical government's financial position due to the Malaysian national debt amounting to more than RM1 trillion (under administration of the former government), Malaysia's Hope Fund (or commonly known by public as *Tabung Harapan* Malaysia) was launched as a campaign for contribution to serve the main purpose of funding so as to encourage Malaysians to donate and help the country (Malaysia to Close, 2018). It is interesting to learn that the *Tabung Harapan* Malaysia as of 31 March 2019 (formal closing date for the contribution campaign) earns a total of RM203.29 million (Tabung Harapan, 2019). The whole situation of changing the government in long years history, on top of citizen's huge cooperation to settle the country's debt indicating a serious trust issue on the former Malaysian government.

On top of the issue of trust in the government, recently Malaysia has evidenced substantial regulatory initiative in the call for its taxation issue. Tax has always been the main source of the federal government revenue of Malaysia. In year 2019, Malaysian federal government revenue comprises of 67.28 percent of total tax revenue alone, followed by non-tax revenue and other non-revenue receipt of 31.18 percent and 1.54 percent respectively (Ministry of Finance Malaysia, 2020). Out of the total tax revenue, corporate income tax is the biggest contributor followed by personal income tax and income from petroleum with 39.84 percent, 19.84 percent and 10.27 percent respectively. In a recent news, a statement of Malaysian Ministry of Finance (MoF) states that direct taxes collected in year 2018 is 11.13 percent more than the collection in preceding year 2017, with corporate income tax as the biggest source of Malaysian direct taxes in the years (Malaysia Achieves, 2019). While corporate tax plays significant role as the biggest contributor of the government's revenue, increased number of resolved corporate tax audit cases in Malaysia (for example, 178,583 cases in year 2017 compare to preceding year 2016 of 161,760)[7] indicates that tax payment by corporations are under intense scrutiny. As a result, in the awake of recent Malaysian 2019 tax budget, the said regulatory initiative has been put in place to prevent risk of transfer pricing activities (tax avoidance) through so-called Multilateral Instrument (MLI), an initiative led by the OECD in combating Base Erosion and Profit Shifting (BEPS) as tax global issue (Ministry of Finance, 2018). Signing of the MLI on 24th January 2018 indicates a commitment Malaysia agrees to international standards of best tax practices and international BEPS Action Plans.

In a more recent update, Malaysia as associate member follows three minimum standards and five optional provisions of MLI. The minimum standard provisions include Article 6 (Purpose of a covered tax agreement), Article 7 (Preventing treaty abuse), and Article 16 (Mutual agreement procedure). The optional provisions include Article 3(1) (Transparent entity), Article 12 (Artificial avoidance of permanent establishment status through commissionaire arrangements and similar strategies), Article 13 (Artificial avoidance of permanent establishment status through the specific activity exemptions), Article 15 (Definition of a person closely related to an enterprise), and Article 17 (Corresponding adjustments).[8] Participation of Malaysia in this regulatory initiative to regulate tax avoidance practice leads to an important signal that corporate tax avoidance has becoming critical tax related issue in Malaysia.

For the specific reasons above, the current study intends to explore the area of linkage between CSR and tax avoidance by incorporating the roles of trust in the government and regulation in the context of Malaysia setting. In an effort to explore the linkage of CSR and tax avoidance, this area of study is still new considering awareness

[7] Inland Revenue Board of Malaysia. (2020, October 10). *Annual report 2017.* Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=2andbt_skum=2andbt_posi=1andbt_unit=7andbt_sequ=1
[8] The Multilateral Convention To Implement Tax Treaty-Related Measures To Prevent Base Erosion And Profit Shifting (MLI) – Malaysia's Position. (2019, December 30). Inland Revenue Board of Malaysia. Retrieved from http://www.hasil.gov.my/bt_goindex.php?bt_kump=5andbt_skum=6andbt_posi=6andbt_unit=1andbt_sequ=3

of the key players in this area and extent of past literature on the particular area. In agreement, it is worth to highlight recent analyses on past literature where the authors conclude that lack of attention has been given in this area of study, implying that it is still at a new stage and worthy of further exploration (Whait, et al., 2018; Stephenson and Vracheva, 2015). Whait, et al. (2018) in their attempt to collect all articles from main competing online Databases (including among a few to name here are ScienceDirect, Scopus, EBSCO Host, Emerald Insight, etc) related to both tax aggressiveness and CSR in an integrated way eliminating all other irrelevant articles that mention only one CSR or tax aggressiveness component, conclude that across the unlimited years of study, there are (only) 143 published articles on this area of study. In addition to the low frequency of articles published in this area, their result evidences an increasing in the number of articles published especially commencing year 2010, implying increased awareness on the area.

Previous studies in this area focus on interpreting empirical result as intention of undertaking CSR, whether corporations undertake CSR in good faith (good CSR) or CSR as a means to conceal unethical behaviour (bad CSR) as mentioned in above paragraphs, mostly relying on assumption that corporations view tax avoidance as immoral. The current study differs in way that it intends to investigate if corporations view tax avoidance as immoral. Intention of CSR is incorporated as a concept in the current study rather than being concluded, adopting "CSR decoupling" concept. CSR decoupling is a term used to demonstrate variance between CSR reporting and CSR actual performance of corporations (Tashman et al., 2019; Sauerwald and Su, 2019; Garcia-Sanchez et al., 2020). In the context of the current study, CSR decoupling implies intention to exaggerate through information in the corporate CSR disclosure. Higher variance between CSR reporting and CSR actual performance implying the exaggerating act. Negative relationship between CSR decoupling and cash effective tax rate (CETR) shows that corporations with higher CSR decoupling engage more in tax avoidance. This finding will indicate that corporations view tax avoidance as immoral explaining that in order for corporations to engage in tax avoidance, they have to exaggerate through CSR because tax avoidance is immoral hence committing it for unavoidable reasons must be accompanied with the exaggeration act through CSR to secure legitimacy and eventually long-term sustainability of corporations. Positive relationship between CSR decoupling and cash effective tax rate (CETR) shows that corporations with higher CSR decoupling engage less in tax avoidance. This finding will indicate that CSR and tax avoidance are independent strategies at corporate level, where decision making of tax is not related to CSR. Corporations do not view tax avoidance as immoral explaining that if corporations intends to avoid tax, they need not exaggerate through CSR because avoiding tax is not associated with being ethical thus they do not have to project ethicality through other medium such as exaggerating CSR.

In addition, the current study differs in another way that it intends to investigate if trust in the government and regulation could influence the relationship between CSR decoupling and tax avoidance. Trust in the government and regulation are selected deliberately in the context of the current study in accordance with their recent effects in the economic environment studied, Malaysia. More importantly, past studies have proved that both trust and regulation affect tax behaviour (Torgler, 2012; Heinemann, 2011; Hug and Spo¨rri, 2011; Marien and Hooghe, 2011; Torgler et. al., 2007; Mickiewicz et al., 2019; OECD, 2020). Weak influence of trust in the government on the relationship explains that with presence of trust corporations engage less in tax avoidance. Strong influence of trust in the government indicates that even with presence of trust, corporations continue to involve in tax avoidance. As regards regulation, weak influence of regulation on the relationship explains that with regulation corporations engage less in tax avoidance. Strong influence of regulation indicates that even with regulation corporations continue to involve in tax avoidance. Next section discusses problem statement of the current study and the gaps identified.

1.2 Statement of Problem and Research Gap

This subsection highlights the problem statement and then the research gaps found in the area of linkage between CSR and tax avoidance. The paradox of immorality, the above said corporate hypocrisy has a serious consequence on society when corporations mislead perception of society that the corporations are being ethical, but in actual fact, they may not. Acting moral and immoral at the same time is incomprehensible act that necessitates further investigation. Today, it is not hard to find online sources on real world cases of corporate tax scandals, but further scrutiny of the corporations' CSR activities reveals their active involvement despite the tax issues. For example, in 2016, Apple Inc., one of the biggest multinational technology corporations, was sued for allegedly involved in tax avoidance schemes (tax sheltering and profit offshoring) to pay almost zero tax on European profits between 2003 and 2014 (Drozdiak and Schechner, 2016). In a later decision by the High Court, Apple Inc. agreed to pay Ireland $15.4 billion in the crackdown of the tax loss (Drozdiak, 2017). Further scrutiny of Apple Inc.'s CSR activities during the years affected reveals active involvement, evidencing real world case of the above said hypocrisy.

Down to Malaysia with no exception, in 2013 the Court of Appeal delivered a landmark judgement in the case of Syarikat Ibraco-Peremba Sdn Bhd v *Ketua Pengarah Hasil Dalam Negeri*,[9] dealing with the application of Section 140 of the Malaysian Income Tax Act 1967.[10] Syarikat Ibraco-Peremba had allegedly involved in a transfer

[9] Syarikat Ibraco-Peremba Sdn Bhd is a wholly owned subsidiary of Ibraco group. Detail facts of the case (Civil Appeal No: W-01-177-04/2013) is obtained from Inland Revenue Board of Malaysia's website under the "list of recent tax case". Retrieved from: http://www.hasil.gov.my/bt_goindex.php?bt_kump=5andbt_skum=5andbt_posi=3andbt_unit=7000andbt_sequ=10andbt_lgv=2

[10] According to Inland Revenue Board of Malaysia, the Malaysian Transfer Pricing Guideline explains provision of Section 140A in the Income Tax Act 1967 and the Transfer Pricing Rules 2012. It governs the standard and rules based on the arm's length principle to be applied on transactions between associated persons, which has taken effect on 1 January 2009.

pricing scheme to avoid tax for its huge transaction involving sale of a developed land. Syarikat Ibraco-Peremba is a corporation that runs business of property development in Malaysia. Syarikat Ibraco-Peremba incorporated a subsidiary to sell a land to the subsidiary and subsequently entered into a contract with the subsidiary for the land's development. Upon completion of the land's development, Syarikat Ibraco-Peremba sold its holding in the subsidiary to a related corporation. The subsidiary and the related corporation then were liquidated after the subsidiary successfully sold the developed land to a third party. The Court of Appeal held that Syarikat Ibraco-Peremba had made the arrangement for the primary purpose of minimizing tax under Section 140. Interestingly, further scrutiny of Ibraco group's CSR activities reveals active involvement prior to and during the year affected, evidencing real world case of the above said corporate hypocrisy in Malaysia to boot.

One might ponder what could be the factors that triggered this corporate hypocrisy to happen in real world scenario. Immediate guess would be factors that affect tax behaviour of individual or corporations. Therefore, when it comes to tax related affairs, prominent factors such as trust in the government and regulation should be part of the discussion. This is due to the fact that payment of tax is highly synonym with trust (Torgler, 2012; Heinemann, 2011; Hug and Spo¨rri, 2011; Marien and Hooghe, 2011; Torgler et. al., 2007; Mickiewicz et al., 2019) and regulation (OECD, 2020). Past studies prove that stronger trust in the government encourages corporation to become cooperative (De Castro et al., 2014; Mickiewicz et al., 2019). This explains that compliance to tax payment is a product of responsibility, where it can be high or low depending on how well corporations assess the government. When trust in the government is low, corporations tend to avoid paying tax since the resources is better off managed by them (back to society) than the government. For example, Davis et al (2016) asserts that payment of lesser tax by corporations in fact results in greater social benefits with a view that private sector corporations are more efficient in allocating resources best for society than public sector organization in handling such cases. Thus, payment of lesser tax leads to increase of cash flow of private corporations, keeping the resources managed by them (McGee, 2010). Therefore, trust in the government is considerably one of the problems that could have caused corporations to not pay fair share of taxes to the government.

On the other hand, imposition of regulation is one of the contributing factors to ensure tax compliance, similar to Hasseldine and Morris (2013) who assert that there is no better way than statutory enforcement for collection of tax. Therefore, without direct formal restrictions on human behaviour, it is fair to expect no degree of conformation to regulations, either for a reward (for conformity) or to avoid punishment (for non-conformity). Since tax avoidance is by any means of regulation is not illegal, the governments around the globe have been pressured for improved regulations on tax avoidance. OECD is one of the non-profit organization who leads various initiatives to combat tax avoidance, especially on guidelines and instilling its awareness (OECD, 2016). Without regulation, voluntary act alone may not be sufficient to discourage something (tax avoidance) from happening out of fear of the consequence. Therefore, weak enforcement to no imposition of regulation is considerably one of the problems that could have caused corporations to not pay fair share of taxes to the government.

In general, tax is a source of revenue to the government, for distribution of wealth back to society in many forms. With this view, tax is related to CSR if it has implication to society. There are substantial effort from past literature in proving that tax has implication to wider community as it contributes directly to provision of public goods in society (Freedman, 2003; Landoff, 2006; Friese et al, 2008; Sikka, 2010; Sikka, 2013). Thus, any effort to reduce tax payment by corporations often through tax avoidance is by norm perceived as immoral act which is detrimental to society's welfare (Freedman, 2003; Slemrod 2004; Landolf, 2006; Williams 2007; Erle 2008; Friese et al. 2008; Schon

2008; Lanis and Richardson, 2015). Since tax is a major contributor of most governments' revenue worldwide particularly developing economies, increasing concern of this reduced tax revenue has becoming prominent in the last few decades. This is due the fact that tax revenue losses are costly to society. Therefore, we could relate the continuing discussions among academia, the governments and non-government institutions including media, that have drawn attention to tax avoidance and tax evasion practices by corporations (Finer and Ylonen, 2017; America, 2016; Dallyn, 2016; Jenkins and Newell, 2013; Sikka and Willmott, 2010; Jenkins and Newell, 2013) as one of the main causes of reduced tax revenue in developing economies. Tax revenue losses has direct impact on provision of public goods by the government for the society, for instance, Jenkins and Newell (2009) prove that the government of developing economies are criticized for not being able to provide sufficient public services, or even if so, the progress of economic growth is moderate.

A few of recent studies also prove that global tax revenue loss is estimated at its maximum around US$200 billion and has foreseen to increase substantially over years (Clausing, 2016; Cobham and Jansky, 2018; Cobham and Jansky, 2019; Torslov et al., 2018). Gathering the facts together, since corporations operate in environment of various stakeholders that they are accountable for and that the tax payment by corporations is seen as having implications to society, thus, tax at corporate level should be seen the same way they see CSR, which is a contribution to society (Freedman, 2003; Christensen and Murphy, 2004). However, this is not the case in reality as evidenced by the real world corporate scandals above, corporations actively engage in CSR but minimise tax as much as possible to the extent that it goes beyond mere utilisation of tax incentives and benefits. This defines the relationship between CSR and tax, where a group of researcher has put their focus on understanding the issue, however, a few gap are seen in the literature that the current study intends to close, which is discussed as follows.

Prior literature in the linkage of CSR and tax avoidance demonstrates a number of groups in regards to empirical study.[11] The first group focuses on declaration of tax issues in corporate codes of conduct. The second group focuses on the issue of CSR transparency in meeting tax obligation, as to whether socially responsible corporations are paying higher or lower tax. The third group focuses on corporate governance issue in the assessment of CSR and tax avoidance. Further discussion of the current study emphasis on the second group, since tax disclosure issue and governance issue are separate areas of discussion. Transparency of CSR in meeting tax obligations is one of the issues discussed in the linkage of CSR and tax avoidance, in other phrase indicating intention of doing CSR by corporations. In most cases, positive relationship between CSR and tax avoidance is grounded on the premise that corporations treat CSR as risk management strategy (Godfrey, 2005; Godfrey et al., 2009; Fombrun, Gardberg, and Barnett, 2000; Godfrey, Merrill, and Hansen, 2009; Mao, 2019). The authors explain this situation as hedging, where managers use CSR to hedge against possible unfavourable corporate events as a result of their aggressive tax avoidance, such as reputation damage, media pressure, penalties imposed by tax administrators, boycott from customers (Hanlon and Slemrod 2009; Wilson 2009) down to serious political, regulatory and social sanctions (Godfrey 2005; Minor and Morgan 2011). In this case, CSR and tax payment are substitute to one another.

On the other hand, negative relationship between CSR and tax avoidance indicates that corporations are honouring their tax obligation and view paying tax the same way they view CSR (Davis et al, 2016; Mao, 2019). In light of the shift of corporate culture from traditional view of maximizing shareholders' wealth to contemporary view of being accountable to various stakeholders rather than shareholders alone (Hoi et al, 2013; Mao, 2019), corporations are moving towards embracing CSR to consider their business impact

[11] Crediting the analysis of past literature on the relationship between CSR and tax avoidance by Stephenson and Vracheva (2015).

to economies, societies and environments (Mao, 2019). Since paying tax to the government is a mandatory social contribution for public interest, avoiding tax would mean a violation of social invisible contract between corporations and society, thus paying tax is consistent with the goal of CSR (Mao, 2019). In this case, CSR and tax payment are complementary.[12] There are also instances from past literature that CSR and tax avoidance are not related to each other. Grounded by the theory of shareholders (Friedman, 1970) which emphasizes on maximization of shareholders' wealth and increment in the value of corporation, as long as investment in CSR is deemed fit for corporate performance[13], engaging in tax avoidance for similar purpose of maximizing shareholders' wealth and to increase the corporation's value, is also possible (Mao, 2019; Davis et al, 2016). In this case, CSR is not related to tax payment if the corporations are able to pursue both strategies independently (Davis et al, 2016). Although the linkage of CSR and tax avoidance is reasonably understood relying on findings of these past studies, however, there are a few gaps from the literature that the current study intends to address, discussed as follows.

The first gap in the literature is that past studies on the linkage of CSR and tax avoidance rely on an assumption that tax avoidance is immoral. However, there is extremely scarce evidence to this extent that proves corporations view tax as a return to society.[14] It is interesting to understand that there is a diversity in how corporate tax is addressed in the accountability reports of corporations (Davis et al, 2013). For example, using legal means to pay less tax is not considered as socially undesirable activity by managers and some stakeholders, suggesting that managers and stakeholders do not

[12]In this case, stakeholder theory that goes beyond traditional view of shareholders' profit maximization (Carroll 1979; Garriga and Mele 2004; Mackey et al. 2007) is adopted. In extreme cases, corporation may even pay more taxes than they are supposedly pay. For example, Starbucks responded to its act of immoral criticism by paying a sum of agreed tax regardless of the profitability (Davis et al, 2016).

[13] For example, CSR promotes brand image, contributes to a positive reputation, useful in securing clients, employees and suppliers, contributes in the increment of stock returns, increases value of the firms, helps in efficient use of firms' resources (Tsoutsoura, 2004; Karagiorgos, 2010; Gras-Gil et al., 2016). Whilst engaging in tax avoidance would be beneficial to the corporations in the sense that tax expenses will be reduced, hence increases the corporate profits.

[14]There is only one study found to investigate perception of managers and other stakeholders on whether tax payment is socially responsible which is Davis et al. (2013).

necessarily have similar perspective on corporate tax as in the corporations view tax when they establish the reporting guidelines (Davis et al, 2013). It is also rather surprising argument that payment of tax is a negative outcome of an action to society, with a view that tax payment adversely impact society in the sense that it impairs innovation, job growth and economic development especially in the context of investment and entrepreneurship (Djankov et al, 2010). In agreement, majority of corporations are seeing the action to lobby for lower corporate tax as a way of enhancing social welfare (Davis et al, 2013).

While previous studies focus their objective on understanding the intention of CSR by corporations, however, the current study intends to investigate the view of corporations on tax avoidance. Intention of CSR (particularly intention to exaggerate), implying through CSR decoupling, is embedded in the framework as a concept to understand how corporations view tax avoidance. In essence, corporations should report what they have done for CSR, however, in many cases, CSR reporting is incongruent with CSR actual performance (external assessment on corporations' CSR activity), leading to an emerging concept of CSR decoupling (Tashman et al., 2019; Sauerwald and Su, 2019; Garcia-Sanchez et al., 2020). This concept is borrowed to explain the behaviour of corporation in regards to CSR intention, where it is fair to understand that the misalignment, often through extensive CSR reporting as compared to CSR actual performance, indicates that corporations intend to exaggerate through CSR. Higher variance between CSR reporting and CSR actual performance implying the deliberate intention of improved CSR disclosure. Thus, the current study differs in that it investigates the linkage of CSR decoupling and tax avoidance. Negative relationship between CSR decoupling and cash effective tax rate (CETR) shows that corporations with higher CSR decoupling engage more in tax avoidance, indicating that corporations view tax avoidance as immoral. Positive relationship between CSR decoupling and CETR shows that corporations with higher CSR decoupling engage less in tax avoidance, indicating that corporations do not view tax avoidance as immoral.

The second gap in the literature is that the focal of CSR in the context of prior studies has been concentrated in the perspective of CSR as a one-dimensional construct. However, CSR in essence is built up of a few fundamental dimensions such as economic, legal, ethical and philanthropic (Carroll, 1979) at its early stage of development, although rapid economic development globally has extended these dimensions to include environment and governance as well. One may have argued that different dimensions of CSR could have affected tax avoidance differently or perhaps may not affecting tax avoidance at corporate level at all. This gap of one-dimensional view of CSR is worthy for further investigation. For example, Whait et al. (2018) urge that future studies in the area should not limit the analyses by treating CSR as one-dimensional construct, instead, they should focus on possible effects that different dimensions of CSR could have on tax avoidance. Laguir et al. (2015) is among the first to investigate the linkage of CSR and tax avoidance in different CSR dimensions, however, most studies indeed tested CSR as one-dimensional construct.

Meanwhile in CSR decoupling area, similar issue presents where none has investigated different CSR dimensions effects but focusing on the aggregate of CSR issues to represent the overall CSR. Thus, the current study intends to close the gap by investigating the relationship of CSR decoupling to tax avoidance in three different dimensions of CSR which are community, employee and environment, following dimensions established by CSRHub.[15] Detail on the selected dimensions is discussed further in the methodology chapter. However, it is important to highlight that contemporary economic setting has a similar set of CSR dimensions worldwide, in

[15] CSRHub is a sustainability rating agency where its approach to sustainability model assesses 10 different regions worldwide. Similar to Morgan Stanley Capital International (MSCI), these agencies assess corporate sustainability performance and rate corporations accordingly based on certain criteria set forth, available for free access in their website. Further discussion on CSRHub is justified in Chapter 3 of this thesis. Although governance is a part of CSR dimensions as established by CSRHub, exclusion of governance is deliberate in the context of current study as governance and tax is another area of study, not in the scope of current study.

general, the mains are comprised of but not limited to community, employee, environment, and governance (as appear commonly in corporate annual reports, sustainability reports, and other sources including score from large established CSR rating agencies, such as Morgan Stanley Capital International (MSCI) Environment, Social and Governance (ESG) Index[16]).

The third gap in the literature is the lacking of theoretical analysis in the research area (Whait et. al., 2018; Hanlon and Heitzman, 2010). Leveraging mostly on legitimacy theory, agency theory and stakeholders theory, the results vary in different geographic. In a recent study, Whait et al. (2018) claim that although these theories are dominant in explaining the linkage of CSR and tax avoidance, they are also underutilized. Legitimacy theory is mostly used in past studies to explain CSR behaviour of corporations. From this perspective, CSR serves as a medium of engagement between corporations and society, in which CSR may be viewed as legitimate business activity than mere cost to maximize shareholders' wealth. For example, commitment in CSR is mainly driven by the need to protect corporations' reputation to ensure legitimacy of corporations. Agency theory is mostly used in past studies to explain behaviour of management in tax related issue, particularly on how tax avoidance benefits managers in terms of higher incentives at the expense of shareholders. Stakeholder theory explains that tax should be seen as part of CSR where corporations are accountable to more than just their shareholders, to include interests of other stakeholders.

These theories are well explained in the context of past studies, however, in the context of the current study, they are insufficient to ground the concept of trust and regulation into explanation. Therefore, the current study intends to fill this gap by examining the linkage of CSR decoupling and tax avoidance on the ground of neo-

[16] Also known as KLD, Morgan Stanley Capital International (MSCI) RiskMetrics Group evaluates corporations' ESG performance and has influenced investment decisions in financial world. High performing corporations are named to various global indexes created by MSCI including the MSCI Global Climate Indexes, the Low Carbon Indexes, the Global Sustainability Index Series, and of course the MSCI KLD 400 Social Index (Turner, 2013).

institutional theory, for two main reasons that the past dominant theories may be insufficient. The first main reason is that neo-institutional theory sufficiently explains the relationships of all variables involved in the current study including trust in the government and regulation that act as moderators in the framework. The second reason is that neo-institutional theory is a theory that is synonym to CSR and tax related area of studies, however, in this area of linkage between CSR and tax avoidance, no researchers has grounded their basis of judgment on neo-institutional theory, thus providing opportunity for a theoretical contribution. Neo-institutional theory has been used to explain behavior of CSR practice in many countries, but, emphasis in made again that Malaysia is carefully chosen in the current study for its unique characteristic of having similar institutional factor in its corporate environment, explained by mimetic and coercive isomorphism (Baughn et al., 2007; Karyawati et al., 2020). Further discussion of neo-institutional theory in the development of hypotheses is discussed in detail in literature review chapter.

The fourth gap in the literature evidences no discussion of trust in the government that could affect the relationship between CSR and tax avoidance. Court and Cotterrell (2006) claim that country-specific characteristics such as political and institutional context in developing countries demonstrate great variance to those of developed countries and that there is great diversity of political and institutional environment even across the same roof of developing countries. Thus, the current study intends to fill this gap by incorporating element of country-specific characteristic which is trust in the government, as moderating role assumed to have influence on the relationship between CSR decoupling and tax avoidance. Past studies have proved that tax behaviour of corporations has positive effect on trust in public officers, politicians, the government and political system (Torgler, 2003; Lago-Pen˜as and Lago-Pen˜as, 2010; Marien and Hooghe, 2011; Scholz and Lubell, 1998; Torgler et. al., 2007). Deliberate selection in the context of developing economy, Malaysian corporate environment is carefully chosen where trust in the government is apparent issue in its recent political change.

The fifth gap in the literature evidences no discussion of regulation that could affect the relationship between CSR and tax avoidance. Governments around the globe are demonstrating demand for tax planning regulation. It is evidenced through their increasing support in a voluntary effort by OECD to strengthen the regulation and law to address tax avoidance issue. For instance, in a recent project led by OECD, currently considered as the largest International Tax Reform project in history (Romero, 2015), Base Erosion and Profit Shifting (BEPS) has a participation of approximately 90 percent of global economy (comprises of 94 countries worldwide). The main purpose of BEPS is to implement significant changes to the current international taxation model through the establishment of multilateral instruments. One of the agenda carried by BEPS including national jurisdiction assessment of tax planning strategy by corporations to ensure transparency, certainty and security to assist in the corporate decision making process especially investment related (OECD, 2013). Recently, Malaysia also signed the Multilateral Instrument (MLI) indicating a commitment Malaysia agrees to the international standards of best tax practices and international BEPS Action Plans as regulatory initiative to address its tax avoidance issue.

The sixth gap in the literature is scarcity of geographical context. An analysis on the linkage of CSR and tax avoidance (Whait et al., 2018) shows an insight to geographical locations of studies where focuses to date have been in the regions of United States, Europe, Africa, Asia, United Kingdom, North America, South America, Australia (also there are studies that focus on intercontinental, as well as no specific focus), with emphasis that about 33.33 percent of overall sample articles devoid of focusing on a specific country or area. On top of it, concentration of the studies have been on developed economic settings, as compared to emerging economies. However, evidence has shown that tax revenue losses are reported at greatest intensity in low-income and lower-income countries and across sub-Saharan Africa, Latin America and the Caribbean and South Asia, majority of which represent developing countries (Cobham and Jansky, 2018; Cobham and Jansky, 2019). Thus, the current study intends to investigate the relationship of CSR decoupling and tax avoidance in the context of developing economy, particularly Malaysia, focusing the scope of study on a specific country.

1.3 Research Objective and Research Question

This subsection summarises the objectives of research and research questions of the current study. In this study, reiteration is made that the focus is not intended for investigation of CSR or tax avoidance as independent study, rather, the thrust of the current study is the linkage of CSR and tax avoidance. Based on the problem statement and research gaps above, the current study delves three main objectives namely:

1. To investigate the relationship between CSR decoupling and tax avoidance.
2. To investigate the moderation effect of trust in the government on the relationship between CSR decoupling and tax avoidance.
3. To investigate the moderation effect of regulation on the relationship between CSR decoupling and tax avoidance.

The current study intends to answer the following three main research questions:

1. Does CSR decoupling affect tax avoidance?
2. Does trust in the government moderate the relationship between CSR decoupling and tax avoidance?
3. Does regulation moderate the relationship between CSR decoupling and tax avoidance?

1.4 Contribution of Study

This subsection highlights the contribution of the current study. The current study contributes to the body of literature in several manners. Firstly, the current study incorporates a new concept that explains the intention of CSR into examination, which is a new contribution to the literature. This intention of CSR is implied using a concept adopted from CSR decoupling area of study. CSR decoupling is a variance between disclosure of CSR by corporations and their CSR actual performance. Most past studies have examined CSR as overall performance devoid of distinguishing between good CSR and bad CSR. Rather, intention of CSR as to whether corporations are engaging in CSR in good faith or merely as a tool to conceal unfavorable act that could cause them severe punishment, is concluded than examined. Thus, findings of the past studies have relied on assumption that corporations view tax avoidance as immoral. However, to this extent, there is very limited evidence that stakeholders, for example, managers whom acting behind corporations where corporate decisions are made, view tax as a contribution to society. Therefore, incorporation of CSR intention in the current study draws a new insightful information of corporate view on tax avoidance. Finding of the current study benefits readers in their understanding of the area of study particularly if corporations view tax avoidance as immoral.

Secondly, the current study contributes to the existing literature by examining CSR as multi-dimensional construct. Whait et al (2018) claim that past literature in the area of study evidence restricted findings when CSR is treated as one-dimensional construct. In agreement, Capelle-Blancard and Petit (2012) argue that CSR as an overall score is a challenge as corporations may have contributed significantly to one area of CSR, but at the same time may act irresponsibly of another area related to CSR. Thus, treating overall score of CSR may have mislead investigation of an issue. In general, CSR is divided into categories, for example, discretionary, ethical, legal and economic

(Carroll, 1979) as early as 1979. However, matured economic environment today has elevated CSR accomplishments, resulting in a contemporary dimensions of CSR that goes beyond mere philanthropic and ethics, to embrace more dimensions such as community, corporate governance, diversity, employee relations, environmental, human rights and product (source from MSCI ESG Index). On this said basis, different dimensions of CSR may have affected tax avoidance differently, therefore, the current study contributes in providing this less discussed information.

Thirdly, the current study makes a theoretical contribution by investigating behaviour of corporations in the linkage of CSR and tax avoidance from different perspective of behavioural theory, particularly neo-institutional theory. Dominant theories such as legitimacy theory, agency theory and stakeholder theory are often used to explain behaviour of corporations in relation to CSR and tax, however, none has grounded their basis on neo-institutional theory before, which is one of the theories synonym in CSR and tax domain. In accordance, Whait et al (2018) state that although the dominant theories said above are used in the past studies, they are still underutilised, signalling a gap in the research area that requires attention.

Fourthly, the current study contributes to the body of literature through examination of trust in the government as moderating role to the investigated linkage. Prior studies have evidenced less engagement of factors that could have affected the relationship of CSR and tax avoidance. For example, tax avoidance practice by corporations is explained by several reasons in prior studies such as agency problem that exists between manager and shareholder (Desai and Dharmapala, 2006; Desai, Dyck, and Zingales, 2007), ownership structure (Chen, Chen, Cheng, and Shevlin, 2010; Desai and Dharmapala, 2008), corporate governance (Armstrong, Blouin, Jagolinzer, and Larcker, 2015; Minnick and Noga, 2010) and manager political connections (Chan, Mo, and Zhou, 2013; Kim and Zhang, 2015). In more recent studies, contributing factors to tax avoidance practice such as social trust and country level governance are examined as well (C.Xia et al, 2017; Zeng, 2019). While these prominent factors are proven affecting tax avoidance behaviour of corporations, however, they are not examined in the linkage of CSR and tax avoidance area of study. Therefore, the current study draws new insightful information on the effect of trust in the government on the linkage of CSR and tax avoidance. The current study explains if trust in the government influence the relationship between CSR and tax avoidance.

Fifthly, the current study contributes in another way that it examines the role of regulation in the linkage of CSR and tax avoidance. Prior studies focus on external factors that help reduce tax avoidance practice such as legal protection of investor, role of religiosity, role of activist and market competition, to name a few (Atwood, Drake, Myers, and Myers, 2012; Boone, Khurana and Raman, 2012; Dyreng, Hoopes, and Wide, 2016; Kubick, Lynch, Mayberry, and Omer, 2015). According to Abreu and Gomes (2019), regulatory initiative (guidelines on taxation issue) by OECD (2011; 2016) leads to increasing awareness of the need for supervision (by the board) on corporation's tax planning strategies allowed for management that would discourage practices such as aggressive tax planning. Again, while the above factors including regulation are proven affecting tax avoidance behaviour of corporations, however, they are not examined in the linkage of CSR and tax avoidance area of study. Therefore, the current study provides new information that explains if regulation moderates the relationship between CSR and tax avoidance.

Sixthly, leveraging on Malaysia as sample investigation, the current study contributes to the body of literature in the context of emerging economy, when prior studies mainly focus their investigation in developed settings. Since global tax revenue losses is associated mainly from the developing countries (Cobham and Jansky, 2018) and the main source of revenue in most developing countries is tax, contribution to the literature in developing context is crucial. In line with Court and Cotterrell (2006), in their working paper for ODI Research and Policy in Development (RAPID) Programme in collaboration with the Global Development Network (GDN), political and institutional context in the developing countries demonstrates a great variance to those of developed countries (in the study referred to OECD countries) and that even across the developing countries, there is a great diversity of political and institutional environment. Therefore, findings related to institutional context of different countries is critical for researches and other stakeholders to enable them to participate in the likelihood of influencing policy (Court and Cotterrell, 2006). While prior studies in the area employ sample of corporations within a specific country such as France, United States, Australia and Canada, extremely few have focused on developing settings, but none has employed Malaysian corporate environment in the study. Therefore, the current study provides information on the linkage of CSR and tax avoidance in developing economy.

1.5 Operational Definition

This subsection defines the operational definition of the variables. Below are operational definition of variables involve in the current study:

CSR reporting: refers to corporations' own assessment of their CSR performance which is made public through disclosure in sustainability report, CSR report and/or annual report (under sustainability or CSR section).

CSR performance: refers to external assessment of corporations' "principles, practices, and outcomes of businesses' relationships with people, organizations, institutions, communities, societies, and the earth, in terms of the deliberate actions of businesses toward these stakeholders as well as the unintended externalities of business activity" (Wood, 2016).

CSR decoupling: refers to "a symbolic strategy whereby firms overstate their CSR performance in their disclosures to strengthen their legitimacy." (Tashman et al., 2019).

Community CSR: refers to "the company's commitment and effectiveness within the local, national and global community in which it does business. It reflects a company's citizenship, charitable giving, and volunteerism." (CSRHub, 2020).

Employee CSR: refers to "disclosure of policies, programs, and performance in diversity, labor relations and labor rights, compensation, benefits, and employee training, health and safety." (CSRHub, 2020).

Environment CSR: refers to “a company’s interactions with the environment at large, including use of natural resources, and a company’s impact on the Earth’s ecosystems.” (CSRHub, 2020).

Tax avoidance: refers to a rigorous effort to minimize tax by exploiting loopholes in the tax laws often in ways not intended by the government (Sikka, 2010; 2013; Hasseldine and Morris, 2013).

Trust in the government: refers to a belief that the government will act truthfully (Bottazzi, Da Rin, and Hellmann, 2016).

Regulation: refers to perception of the risk and severity of punishment associated with the imposition of regulatory instrumental (Mickiewicz et al., 2019).

1.6 Organization of Thesis

This thesis is structured in five chapters.

Chapter 1 introduces the current study through background of the issue, motivation of study, research problems, research gaps, research objectives, research questions and contribution of the current study.

Chapter 2 reviews past literature including research paradigm of the current study, related theories in the linkage of CSR and tax avoidance, and CSR dimensions. This chapter also discusses on neo-institutional theory in the context of CSR decoupling, tax, trust and regulation.

Chapter 3 describes and justifies theoretical framework; sample selection of the current study; data description including proxies, source and measurement of variables involved; models of estimation and data analysis technique of the current study.

Chapter 4 mainly presents and discusses findings including descriptive statistic, pairwise correlation and main findings of the regression results.

Chapter 5 concludes finding of the current study and recommendation for future research in the area.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

CSR is aimed at making contribution to the society as a result of the profit earned by corporation (e.g., donations), while tax payment is a statutory obligation levied on the corporations as part of society, for the society (e.g., infrastructure development, distribution of wealth from rich to poor, economic growth, etc.). In many cases of the prior studies, the focus is to investigate two conflicting corporate views of linkage of CSR and tax avoidance, the first of which fulfilling corporate responsibility to various stakeholders by embracing tax as part of CSR, and the second of which fulfilling responsibility to society and shareholders by avoiding tax hence making CSR a legitimacy strategy to survive. It is worth to explore the linkage of CSR and tax avoidance especially the rationale behind the idea of treating tax as a feature of CSR as this is highly likely to be seen as an increasing issue in the next decade (Sikka, 2010; Sikka, 2013, Avi Yonah, 2008). This chapter hence is organised into several sections to walk through the literature on the linkage of CSR and tax avoidance, and how they are connected to theoretical background and hypotheses development of the current study. The next section discusses paradigm of the current study to begin with.

2.1 Linkage of CSR and Tax Avoidance and Related Theories

This subsection explains the past literature in the area of linkage between CSR and tax avoidance, including their related theories. In a few recent studies, Jiang et al. (2022) conclude that CSR influences corporate behaviour that advantages the society but it cost the corporation to not honour the payment of tax. The authors examine Chinese listed corporations and find positive relationship between CSR and tax avoidance. Kacem and Omri (2021) in an attempt to study the relationship of CSR and tax incentives using sample data of Tunisian corporations find negative relationship between CSR and tax incentives. The results imply that corporations are not leveraging tax incentives effectively (Kacem and Omri, 2021). Raithatha and Shaw (2022) investigate the influence of CSR regulation on tax aggressiveness and find negative relationship between them. The authors suggest that corporate visibility and reputation are significant determinants in the relationship between CSR and tax policy. In another study that investigate the relationship between tax avoidance, corporate governance and CSR, Abdelfattah and Aboud (2020) conclude that CSR and tax avoidance is positively related. Leveraging on Egyptian corporations as sample data, the authors also find that corporations with more complex structure of their board of directors disclose more CSR and that corporations who disclose more CSR earn more in stock returns, suggesting that CSR adds value to the corporations. Alsaadi (2020) concludes that corporations in low financial-tax reporting conformity countries do more CSR as a strategy to protect against likelihood of negative outcome of tax avoidance, hence CSR and tax avoidance is positively related. In a more recent study, Hajawiyah et al. (2022) investigate the relationship between CSR and tax aggressiveness with risk management as moderating role. The authors find that CSR and tax aggressiveness has bidirectional negative relationship with each other. The authors use Indonesian listed corporations and also find that risk management strengthen the bidirectional relationship of CSR and tax aggressiveness with each other.

Zeng (2019) concludes that the relationship between CSR and tax avoidance is not consistent with various legal and institutional environment of countries, emphasising his finding that CSR is positively related with tax avoidance. The author claims that CSR and country-level governance are substitute in the sense that for corporations to engage in tax avoidance, if the country-level governance is weak then CSR scores need not be high. The author fills the research gap by investigating interaction between CSR and country-level legal and institutional environment that could affect tax avoidance (Zeng, 2019). The sample used in the study is listed corporations from 35 countries all together based on GDP. In another recent study by Mao (2019) to examine effect of CSR on corporate tax avoidance, the author concludes that in comparing CSR and non-CSR corporations, CSR corporations exhibit higher aggressiveness in their tax avoidance, implying that engagement of CSR activities by them is one of strategies for risk management. The author uses a sample of Chinese listed corporations. In a study conducted by Lanis and Richardson (2015), the authors examine if CSR performance is associated with tax avoidance, using corporations from KLD database. The authors conclude that more socially responsible corporations engage in less tax avoidance, a negative relationship. Significant dimensions of CSR performance such as community relation and diversity contribute to lesser tax avoidance engagement by corporations (Lanis and Richardson, 2015). Hoi et al. (2013) conclude that corporations who involve in excessive irresponsible CSR activities engage more aggressively in tax avoidance (CSR is negatively related to tax avoidance – CSR and tax payment is a complementary), implying that CSR, seen by the authors as a dimension of corporate culture, influences tax related behaviour of corporations. The authors also note in their study that there is important issue to be further explored as to whether the practice (more irresponsible firms engage in higher tax avoidance) of corporate culture (which is CSR in this case) could benefit shareholders (Hoi et al, 2013). Same as Lanis and Richardson (2015), the sample is based on corporations from KLD database, merged with two other databases, SandP Compustat and Thompson Reuters Ownership.

Another study by Davis et al (2013) reveal that investigation of 40 corporate accountability reports of corporations in its sample size, merged from Compustat, MSCI ESG, and lobbying databases, show that there is diversity in how corporate taxes are addressed in the accountability reports of corporations. For example, payment of tax is viewed as harmful to innovation, production, job creation and economic development

(Davis et al, 2013). With this negative view of tax payment, finding of the study proves that majority of corporations are seeing action to lobby for lower corporate taxes as a way of enhancing social welfare and some of the corporations even overlook the taxation issue in their corporate accountability reports, even though some of the corporations do recognize socially responsible act by paying taxes (Davis et al, 2013). The authors also prove that using legal means to pay less tax is not considered as socially undesirable activity by managers and stakeholders (support the negative outcome of tax payment), suggesting that managers and stakeholders do not necessarily having similar perspective on corporate tax as in how corporations view taxes when they establish reporting guidelines (support the positive outcome of tax payment) (Davis et al, 2013). Overall, Davis et al (2013) conclude that CSR is positively related to tax avoidance. In a latter study, Davis et al (2016) conclude that CSR is positively related to tax avoidance, indicating that CSR and tax payment is substitute to one another. The authors also use corporations merged from both Compustat and MSCI ESG databases as sample.

Zeng (2016) uses Canadian listed corporations in his attempt to examine the relationship between CSR, tax aggressiveness and corporate market value concludes that more socially responsible corporations engage in less tax avoidance evidence higher tax payment, indicates a negative relationship. Since CSR contributes to corporate reputation, paying more tax and engaging in CSR lead to higher market value of the corporations (Zeng, 2016). In a recent study by Mao and Wu (2019), the authors conclude that tax avoidance is negatively related to CSR. In their attempt to investigate the indirect effect of CSR on tax avoidance, the authors claim that profitability acts as mediator in the linkage of CSR and tax avoidance in such a way that CSR reduces profit, while profit increases tax avoidance. However, they conclude that CSR does not significantly moderate the mediating effect of profit on tax avoidance among Chinese listed corporations (Mao and Wu, 2019). Lanis and Richardson (2012) study empirical evidence of CSR and corporate tax aggressiveness based on a sample of 408 public listed Australian corporations conclude that CSR is negatively related to tax avoidance. Holland et al. (2016) investigate tax related disclosure of the United Kingdom's corporations in corporate annual report and CSR report find that managers view tax avoidance as a potential risk to legitimacy.

In above empirical studies, among those mentioned, one of the main debating views is that tax should be seen as part of CSR. This view is grounded on the basis of stakeholder theory where corporations are accountable to more than just their shareholders, to include interests of other stakeholders, to name a few relevant including society, government, trade unions, employees, and customers (Margolis and Walsh 2003; Mackey et al. 2007; Davis et al, 2016; Lanis and Richardson, 2015). Emphasis is made to focus on consequences of corporate action that could benefit or harm society at large, devoid of focusing on specific group of interest. This leads to engagement of activities by corporations that falls beyond profit maximization (Margolis and Walsh 2003; Mackey et al. 2007). Porter and Kramer (2006) claim that society plays significant role to ultimate success of corporations in the sense that society engage in almost every activities in corporate value chains, of which striving at actions costly to society would mean a threat to long term sustainability of corporations. Avi Yonah (2008) and Schon (2008) claim that survival of corporations in intense corporate competition environment requires corporations to deal with environment that belongs to other entities and individuals. Therefore, creation and establishment of corporate policies and strategies will require engagement beyond shareholder-centric per se. For example, CSR activities should be of transparent to corporate strategies in recognition of corporate responsibility to society (Williams, 2007).

Grounded by the stakeholder theory, payment of tax is considered associated with society because it is beneficial to society, and that the reduced tax payment may cause detrimental effect on social welfare (Freedman, 2003; Landoff, 2006; Friese et al, 2008; Sikka, 2010; Sikka, 2013; Slemrod 2004; Williams 2007; Erle 2008; Schon 2008; Lanis and Richardson, 2015). Since corporations operate in the environment of various stakeholders that they are accountable to and that the tax payment by corporations is seen as having implications to society, taxation at corporate level should be seen as part of the corporations' CSR (Freedman, 2003; Christensen and Murphy, 2004). Having said so, engagement in tax avoidance that would reduce the fair share of tax payable to government is considered immoral or illegitimate (Avi Yonah, 2008). For a corporation to be perceived as legitimate by society and tax authority, it is important that it complies with spirit of law by not involving in active tax management strategies (Christensen and Murphy, 2004; Ostas 2004; Rose 2007). Lanis and Richardson (2015) claim that tax avoidance is illegitimate and socially irresponsible act of corporations that involvement in such (immoral) activity is influenced by the corporations' attitude towards their CSR commitment. If corporations view tax as part of their social contribution to society, it is fair to anticipate that the corporations who have high commitment in CSR would engage less in tax avoidance as avoiding tax would mean inconsistency with positive effect of CSR.

Another debating view in the literature is that CSR serves as a medium of engagement between corporations and society, as claimed by Avi Yonah (2008) that CSR may be viewed as legitimate business activity than mere cost to maximize shareholders' wealth. For this point of view, past literature on CSR disclosure mostly are grounded by legitimacy theory in explaining CSR behaviour of corporations. For example, CSR is seen to be acting as a medium of legitimate acknowledgment, often is described as a way corporations gain license to run business and goodwill in public eyes (Chen et. al., 2008; Podnar and Golob, 2007; Deegan, 2002; Dowling and Pfeffer, 1975; Aharony and Geva, 2003; Alsaadi et al., 2017; Cespa and Cestone, 2007; Garriga and Mel_e, 2004; Kim et al., 2012; Lin et al., 2008). In another similar view, there is a claim that commitment in CSR is mainly driven by the need to protect corporations' reputation to ensure legitimacy of corporations for their reputations, sustainability and survival ultimately (Hoi et. al., 2013).

While tax avoidance practice is by any means lawful act, many perceive it as immoral and unethical (Jenkins and Newell, 2013; Hoi et. al., 2013; Preuss, 2010; Sikka, 2010, Sikka, 2013), thus forcing corporations to view tax avoidance as unavoidable (due to the need to increase shareholders' wealth) but a problem to be managed (due to the perceived immoral act of tax avoidance). Corporations are forced to design a strategy to address this tax avoidance issue, often is claimed through CSR. Hence, CSR is used as a medium of risk management strategy. In this risk management context, CSR acts as a mechanism of hedging, similar to insurance protection concept, whereby it plays important roles when negative events occur usually unexpectedly (Hoi et. al., 2013; Minor and Morgan, 2011; Godfrey et al., 2009). Since rigorous effort to minimize tax is regarded as immoral behaviour and a problem to sustainability of corporations, this problem forces corporations to design a strategy so as to maintain their legitimacy (Lanis and Richardson, 2015; Avi-Yonah, 2008; Dowling, 2014).

According to the notion of what is said to be legitimate, Dowling and Pfeffer (1975) outline three main components that form basis of legitimacy theory. The first two components are two main sets of value systems comprising of first, social values of corporations related with their activities or shown indirectly through their activities; while the second is the norms of society at large (where corporations form part of it) of what constitutes tolerable deeds. The third component is the congruency of the above two value systems. Therefore, legitimacy theory is associated with corporations' manners of being respectful towards society at large; perception of individual towards the corporations' effort in achieving their corporate objectives; and corporations' ability to act in a manner that is consistent with the notion of normative (Bachmann and Ingenhoff, 2016; Tost, 2011; Tyler, 2006) which is a deductive process of what should be done based on a theoretical principle (Kabir, 2015; Watts and Zimmerman, 1986; Ijiri 1975). Often, legitimacy theory is widely used to explain behaviour of corporations, especially in voluntary activities (such as environment) as an implication of corporations' perceived legitimacy (Dowling and Pfeffer, 1975). In the event of tax avoidance practice, corporations are proven to act sensitively to likelihood of negative occurrence (Holland et. al., 2016; Dowling, 2014; Ylonen and Laine, 2015; Sikka, 2013; Graham et al., 2012), thus, engaging in positive CSR may be a right decision to hedge against this likelihood of tax avoidance consequence. Therefore, it is fair to understand that corporations commit CSR as part of their effort to win public judgement on their legitimate action, driven by perception of society that corporations are acting ethically.

Past studies in the area of relationship between CSR and tax avoidance have involved various variables into examination, presented in Table 2.0 below.

Table 2.0: Summary of variables used in prior studies

Empirical studies	***Independent variable***	***Dependent variable***	***Other variable***
Hoi et al (2013)	CSR	Tax avoidance	
Amidu et al. (2016)	Corporate governance; CSR	Tax avoidance; Earnings management	
Annuar et al. (2014)	Corporate ownership	Tax avoidance	Board composition as moderating variable
Zeng (2019)	CSR	Tax avoidance	Country level governance as moderating variable
Zeng (2016)	Tax avoidance (hypothesis 1) CSR (hypothesis 2)	CSR (hypothesis 1) Firm market value (hypothesis 2)	
Mao and Wu (2019)	CSR (hypothesis 1)	Tax avoidance (hypothesis 1)	Profitability as mediating variable

	Profitability (hypothesis 2)	Tax avoidance (hypothesis 2)	(hypothesis 1) CSR as moderating variable (hypothesis 2)
Vacca et al. (2020)	Tax avoidance	CSR	Gender diversity
Davis et al. (2016)	CSR	Tax avoidance; Lobbying expenditure	
Huseynov and Klamm (2012)	Tax fee rate	Tax avoidance	CSR as moderating variable
Laguir et al. (2015)	CSR	Tax avoidance	
Kim et al. (2012)	CSR	Earnings management	
Kiesewetter and Manthey (2017)	CSR	Tax avoidance	
Hardeck and Kirn (2016)	Tax avoidance	Industry	
Muller and Kolk (2015)	CSR reputation; Foreign ownership	Tax avoidance	
Landry et al. (2013)	CSR	Tax avoidance	Family ownership as moderating variable
Lanis and Richardson (2012)	CSR	Tax avoidance	
Lanis and Richardson (2013)	Tax avoidance	CSR	
Lanis and Richardson (2015)	CSR performance	Tax dispute	

Hoi et al. (2013) use CSR to reflect negative and positive cases as independent variable, and tax avoidance as dependent variable. Amidu et al. (2016) use corporate governance and CSR as independent variables, while tax avoidance and earnings management as dependent variables. Annuar et al. (2014) use corporate ownership as independent variable, tax avoidance as dependent variable and board composition as their moderating variable. Zeng (2019) use CSR as independent variable and tax avoidance as dependent variable, with country level governance as their moderating variable. In his earlier study, Zeng (2016) use tax avoidance as independent variable with CSR as dependent variable for his first hypothesis, while second hypothesis is tested with CSR as independent variable and firm market value as dependent variable. Mao and Wu (2019) use CSR as independent variable and tax avoidance as dependent variable with profitability as their mediating variable and CSR is then tested as moderating variable in the relationship between profitability and tax avoidance. Vacca et al. (2020) use tax avoidance as independent variable and CSR as dependent variable with gender diversity as their moderating variable.

Davis et al. (2016) use CSR as independent variable with tax avoidance and lobbying expenditure as dependent variables. Huseynov and Klamm (2012) use tax fee rate as independent variable and tax avoidance as dependent variable, while CSR is their moderating variable. Laguir et al. (2015) use CSR as independent variable and tax avoidance as dependent variable. Kim et al. (2012) use CSR as independent variable and earnings management as dependent variable. Kiesewetter and Manthey (2017) use CSR as independent variable and tax avoidance as dependent variable. Hardeck and Kirn (2016) use tax avoidance as independent variable and corporations' industry as dependent variable. Muller and Kolk (2015) use CSR reputation and foreign ownership as independent variables with tax avoidance as dependent variable. Landry et al. (2013) use CSR as independent variable and tax avoidance as dependent variable with family ownership as moderating variable. Lanis and Richardson (2012) use CSR as independent variable and tax avoidance as dependent variable. In another study, Lanis and Richardson (2013) use tax avoidance as independent variable and CSR as dependent variable for a test of legitimacy theory. In their later study, the authors Lanis and Richardson (2015) use CSR performance as independent and tax disputes as dependent variable. Outlining all the past studies above as to the variables used, the current study however focuses on CSR decoupling and different dimensions of CSR decoupling specifically community, employee and environmental as independent variables, tax avoidance as dependent variable, with trust in the government and regulation as moderating variables. Next sections discuss different dimensions of CSR as independent variables in the current study; concept of CSR decoupling through CSR reporting and CSR performance; and neo-institutional theory in the context of CSR decoupling, tax, trust and regulation.

2.2 Neo-Institutional Theory in the Context of CSR Decoupling, Tax, Trust and Regulation

This subsection highlights the theory used in the formulation of conceptual framework of the current study. Whilst previous section discussed a few prominent theories used in the linkage of CSR and tax avoidance area of study, the current study grounds its basis of judgment on neo-institutional theory. Neo-institutional theory is used in the current study for two main reasons. First, neo-institutional theory is feasible to explain the relationship of all main variables involved in the current study, which are CSR, tax, trust and regulation. Prominent theories such as legitimacy, agency and stakeholder theories fit in explaining the linkage of CSR and tax avoidance, but trust and regulation in the context of the current study may not be well explained by the same theory. Neo-institutional theory has been applied in past studies of CSR related area (Tashman et al., 2019; Ntim and Soobaroyen, 2013; Beddewela and Fairbrass, 2016; to name a few), corporate tax behaviour and trust (Mickiewicz et al., 2017), trust and regulation (Marien and Hooghe, 2011) and regulation (Mishra and Chin, 2008). Hence, neo-institutional theory provides strong basis of ground judgment that its application enables explanation of all main variables in the current study at once, compare to other past theories as mentioned. Second, neo-institutional lens has been applied recently in the studies of emerging markets and multi-national corporations in emerging markets (Tashman et al., 2019; Meyer and Peng, 2016; Marano et al., 2017). Similar in the context of the current study that relies on emerging economy Malaysia, neo-institutional theory explains corporate behaviour from the lens of emerging country-specific characteristic and culture that drive such specific behaviour. Neo-institutional theory in the context of CSR decoupling, tax, trust and regulation is discussed further in subsequent sections, next section discusses background of the theory to begin with.

2.2.1 Background of Neo-institutional Theory

This subsection explains the background of neo-institutional theory. In explaining context of the theory, corporations are referred to in this section as organizations to align with specific terms used by the authors in their justification, to avoid further confusion. In a seminal paper that discusses neo-institutional theory, Meyer and Rowan (1977) put forward six propositions on what constitute institutionalized organization and how the concepts connect organizations and institutions to each other. The authors initiate 6 ideas as basis of neo-institutional theory. First, the claim that organizations incorporate institutional rules in their corporate structure. Second is that emergence of economy has brought in more rationalised institutions in the area. Third proposition is that corporate structures of organizations that have element of legitimated societal are able to secure legitimacy and corporate resources and ultimately capable of surviving in the business world. Fourth proposition is regarding inconsistency of organizations' efficiency and ceremonial conformity, where the authors argue that management of efficiency in organizations is often resulted in conflicts and loss of legitimacy, therefore, organizations separate their formal structures and daily activities, where the separation concept is known by the authors as decoupling. Fifth proposition is organizations that reflect more institutional environment in their structure keep their confidence, satisfaction and good faith better. Sixth proposition is that organizations that follow institutional rules do not favour inspection and evaluation internally and externally, including by managers.

Although the authors do not explicitly define organization, the authors regard organization as a formal structure, describing formal structure as an outline of activities[17]

[17] The authors name a few such as listing of offices, departments, positions and programs (Meyer and Rowan, 1977).

that the organization involves on daily basis, coupled with goals and policies. In the argument, Meyer and Rowan (1977) emphasize on distinction between organizations' formal structure and their daily activities. Meyer and Rowan (1977) argue that traditional view of institutional theory (Weber, 1968) assumes that organizations' daily activities can be coordinated and controlled by the organizations' structure that is rational. Coordination of the organizations' daily activities creates rationalized formal structure due to the fact that it has competitive advantage which is vital for their success. In simple words, the theory assumes organizations follow prescription of such rationalized formal structure. But this is criticised for its paradox to real world phenomena (Meyer and Rowan, 1977). Formal organizations are seen as "loosely coupled" (Meyer and Rowan, 1977) between the said formal structural elements with their daily activities. Therefore, this criticism has brought forth argument that formal organizations in contemporary economic setting should not be assumed entirely following formal structure, but should be allowed justification on their activities that form formal structure (Meyer and Rowan, 1977). This leads to an emergence of modern perspective from its traditional view, neo-institutional theory, which is perceived as a change version of institutional theory. In the context of neo-institutional theory, Meyer and Rowan (1977) asserts that institutional environment is the actual influencer of organizations' formal structure, more than their own daily activities. Thus, elements of formal structures are said as highly institutionalized and "function as myths".[18]

Another extremely high referred-to concept discussed in neo-institutional theory is isomorphism. Isomorphic in language terminology is defined as the same or similar in nature or shape (Cambridge Dictionary). According to DiMaggio and Powell (1983), isomorphism is defined as a process out of pressure, by a unit in a set of population, to be

[18] "Ideologies define the functions appropriate to a business-such as sales, production, advertising, or accounting; to a university-such as instruction and research in history, engineering, and literature; and to a hospital-such as surgery, internal medicine, and obstetrics. Such classifications of organizational functions, and the specifications for conducting each function, are prefabricated formulae available for use by any given organization."

similar to other units in the same environment. There are two types of isomorphism distinguished by DiMaggio and Powell (1983), which are competitive isomorphism and institutional isomorphism. The term competitive isomorphism is self-explanatory itself, where similarity to other organization is a consequence of pressure from market competition. The authors assert that competitive isomorphism works best in free and open competition environment. Although the authors mention on competitive isomorphism, the central discussion in the paper focuses on institutional isomorphism as it has bigger impact on modern corporate environment with a view that organizations' ultimate objective on survival extent beyond mere competition on resources and customers, to include political power and institutional legitimacy as well. Institutional isomorphism is similarity to other organization as an outcome of pressure from all other organizations in the economic setting, considering the outside world of the organizations (DiMaggio and Powell, 1983). DiMaggio and Powell (1983) propose three instruments that explain institutional isomorphism which are coercive isomorphism, mimetic isomorphism, and normative isomorphism.

Coercive isomorphism is associated with pressures from other organizations (typically who possess power, authoritative) that one is dependent on and society's expectation to boot (DiMaggio and Powell, 1983). In general, coercive isomorphism is highly related to legal environment that is claimed to pose significant influence on organizations' behaviour and their structure. For example, the authors highlight that changes in organizations can be resulted from immediate reaction to the government's order; conformation to certain environmental regulations; hiring of experts to ensure compliance with tax law requirements; and other legal and technical requirement of the country. In support, there are proofs that organizations have been using the power of larger social system and the government for their business interests (Pfeffer and Salancik, 2003; DiMaggio and Powell, 1983). Although legal environment is often synonym with the governmental institutions, however, the authors argue that imposition of rules and regulations exists outside the governmental field too. Standard operating procedure is one of good examples among related parties in corporate world. Subsidiaries are subjected to their parents' policies, for almost all internal affairs such as accounting treatment, performance evaluation, and budget plan, to name a few. In addition, DiMaggio and Powell (1983) also mention a few cases of subtle form of coercive isomorphism, such as participatory democracy of neighbourhood organizations.

Mimetic isomorphism is self-explanatory by itself, where the homogeneity among organizations is a result of imitating the other organizations. One of the main reasons of this imitation explained by DiMaggio and Powell (1983) is uncertainty. Uncertainty surrounding organizations is often associated with ambiguity and lack of comprehension with regards to their internal and external environment. Thus, imitating other organization is an alternative of survival. This is often seen in the case for new organizations who intend to penetrate market or new environment for the first time, facing the said uncertainty issue, and benefitting from a practical solution by imitating existing organisations in the market at minimal expense. Modelled organizations may not aware of the imitation by borrowing organizations, and in most cases, modelled organizations are those whom the borrowing organizations perceive as highly legitimate and successful (DiMaggio and Powell, 1983).

Normative isomorphism is associated with professionalization. Example of professions as described by DiMaggio and Powell (1983) is organizational professionals, such as managers and specialized staff of large organization. The authors assert that similar to the rest others, professions are not free from other pressures such as mimetic and coercive as discussed above. The authors highlight two characteristics of professionalization that trigger isomorphism, which are formal education by university and growth of professional network. In general, academic credentials have been important source of human resources in corporate world. The idea is that staffs chosen (in a job interview) relying on the academic credentials have similar set of thinking nurtured by exposure of formal education in universities, leads to similar structure of organizations, dominated by them. Another idea is that participation (by managers and staffs) in trade and professional association through professional networking, creating isomorphism among participating organizations.

DiMaggio and Powell (1983) argue that homogeneity is inevitable especially when organizations reach their maturity stage of incorporation, although variation in daily work activities is presented at early stage, as its adoption provides legitimacy that is vital for organizations' ultimate survival. The said homogeneity is commonly known in the area as isomorphism, the same concept explained here in Meyer and Rowan (1977). Meyer and Rowan (1977) argue that organizations' structures are isomorphic to each other for two main reasons, first of which is due to technical and exchange interdependencies; and second of which is due to reflection of socially constructed reality; and generally conclude that organizations imitate the structure of other organizations in the same environment. Having said so, the authors highlight that isomorphism leads to establishment of formal structures that ignores efficiency to be visibly legitimate, focuses on ceremonial measures and that institutions play key role to ensure organizations' stability. Thus, the authors argue that isomorphism is vital for organizations' success and survival, in the sense that penetration of an organization in new environment as a unit similar to existing safeguards it from failure should it enter as independent structure. For example, one hospital tends to resemble another hospital, and one school to another school. Another claim of organizations' survival through isomorphism is that it is linked to legitimacy, in the sense that imitating institutionalized structure of existing organizations validates organizations' activities that acts as a shield against public scrutiny.

Above proposition that explains survival of organizations depends more on being isomorphic to institutionalized environment rather than their own efficiency, leads to multiple issues (Meyer and Rowan, 1977). First issue is that efficiency of performance at organizations' level is not align with pressure of institutionalized ceremonial conformity. Although many eventually follow the latter, this is seen as a cost to the perspective of efficiency (Meyer and Rowan, 1977). Second issue is that ceremonial conformity to a set of rules by organizations are made up of environments of various institutions, resulting in rules that are in conflict of each other. For example, Meyer and Rowan (1977, page 356, para 1) explains the institutionalized environment as follow.

> *"Institutional environments are often pluralistic (Udy 1970), and societies promulgate sharply inconsistent myths. As a result, organizations in search of external support and stability incorporate all sorts of incompatible structural elements."*

Although the authors propose four solutions that are deemed fit to sort the said issues, however, these solutions have opportunity cost at the expense of a choice over another (Meyer and Rowan, 1977, page 356, para 3). Nevertheless, the authors propose two main ideas to close the gap of inconsistency between the institutionalized ceremonial rules conformity and the efficiency, which are decoupling and logic of confidence, explained by their fourth and fifth propositions respectively.

By the fact that organizations can opt for efficiency at the expense of institutionalized ceremonial rules conformity, or otherwise option vice versa, it will however abandon important resources, stability and ultimately put organizations at risk of failure. Therefore, the best alternative way is that organizations can opt for both, conformity with institutionalized ceremonial rules and at the same time being efficient. This explains the decoupling device proposed by Meyer and Rowan (1977). Through this concept, organizations decouple their formal structure from their daily activities, by being isomorphic to other organizations within same industry conforming the same institutionalized rules, however, having diversity in their daily activities. Another solution to the said issues above is the logic of confidence and good faith. Meyer and Rowan (1977) assert that inefficiency at the expense of institutionalized ceremonial conformity will legitimize organizations provided that confidence of the organizations and of their stakeholders are presented and that they are all acting in good faith. For example, employees do their job accordingly so that the organizations can run smoothly with the decoupled structure. Thus, it is understandable that organizations where their formal structures follow institutionalized environment maintain confidence and good faith, and that this ceremonial conformity is by any means is truthful. However, Meyer and Rowan (1977) bring forth argument that evaluation and inspection on organizations by any parties is deemed inappropriate and pose risk to organizations' legitimacy when it is subjected to public scrutiny particularly on the said assumption that organizations with institutionalized structure act in good faith. Therefore, the authors put forward their last proposition claiming that in institutionalized organizations, avoidance of inspection and evaluation acts as a strategy to legitimize themselves. The remaining sub-sections discuss CSR dimensions before hypotheses development of the current study, grounded on the propositions of neo-institutional theory as discussed in this section.

2.2.2 CSR Dimension

This subsection explains the dimension of CSR. According to Costa and Menichini (2013) and Szczuka (2015), CSR standards governing corporations include but not limited to ISO 26000, Social Accountability standard SA 8000, Accountability 1000, UN Global Compact, ILO Standards, OECD Guidelines for Multinational Enterprises, GRI (Global Reporting Initiative, 2006), and Global Sullivan Principles, to name a few, although most established corporations follow GRI reporting guidelines for their sustainability report (Costa and Menichini, 2013). Adherence to these standards is of no means having direct consequence on corporations, but merely to be recognised by public (Downing, 2003). For this public recognition, corporations are perceived accountable to other obligations such as legal and philanthropic, besides economic and financial obligation. Therefore, we could understand the increasing awareness of CSR best practice to extend beyond mere business and economic, to incorporate legal and philanthropic as early as Carroll (1977); and later incorporation of social and environment in the early 2000 (ISO, 2002). Lately, topic on CSR is often highly accompanied with governance issue alongside their best practice discussions (Lokuwaduge and Heenetigala, 2017; Tamimi and Sebastianelli, 2017; Li et al., 2018; McBrayer, 2018; Lagasio and Cucari, 2019). For example, the term "ESG" that refers to Environmental, Social and Governance is widely used today in CSR body of literature, indicating that CSR and governance are complimentary issues in corporate sustainability.

In a study conducted by Turker (2009), CSR is assessed from a few main sources, including reputation indices and databases, and corporate annual and sustainability reports. Derived from stakeholders' concept, CSR is assessed to account for perspective of all stakeholders, including shareholders, employees, customers, competitors, the government and non-governmental institutions, down to natural environment and future generations (Turker, 2009). Thus, building on this stakeholders' perspective, approach to CSR assessment is proposed through dimensions that effectively explains CSR events related to different group of stakeholders. This approach is commonly known as multidimensional CSR. Different sources have grouped CSR into different dimensions, however, most of them are nearly similar to each other. For example, GRI sustainability guidelines explain three dimensions of CSR practices including economic, environmental and social. In another standard, MSCI ESG Index grouped sustainability issue into three dimensions including environmental, social and governance. Prominent scholars building their studies on CSR define CSR overall score to consider categories such as employee relation, environment, community, diversity, human rights, product quality and safety, and governance (Hoi et al., 2013; Davis et al., 2015; Kim et al., 2012; Lanis and Richardson, 2012, 2013, 2015).

The importance of dimension in CSR is explained by a few logical reasons. First, CSR forms part of corporations' strategies, therefore analysing CSR in different dimensions may provide better evaluation of corporate behaviour in different aspect. Second, it benefits managers in strategizing CSR in detail, in the sense that managers will be able to know if their CSR communication is effective or their CSR commitment is sufficient, through perception of stakeholders. For example, if stakeholders see corporations as not performing in one dimension of CSR, when the corporations believe they are doing well, it indicates poor communication of CSR in that aspect, otherwise would mean the issue of insufficient commitment of corporations in that aspect (Costa and Menichini, 2013). Therefore, managers are able to manage CSR especially on which area of CSR that are in need of focus and better investment. Third, dimension of CSR provides insightful information on different aspect of corporations' CSR commitment, since corporations are proven to behave responsibly and irresponsibly in different dimension of CSR (Costa and Menichini, 2013). Fourth, total CSR score of corporations, absence of recognizing different dimensions may have misled investigation of an issue, given the fact that corporations react differently to different CSR dimensions. Recognizing the importance of CSR dimensions, the current study intends to focus on CSR dimensions particularly community, employee and environment as basis of analysis due to the fact that social impact is highly associated with society and human capital, while environment has been a heavy issue worldwide especially in corporate world (it is not difficult to find many evidences from past literature, newspapers headlines, corporate sustainability and annual report, to name a few sources, that touch on environment issue of corporations).

2.2.3 CSR Reporting, CSR Performance and CSR Decoupling

This subsection highlights how CSR reporting, CSR performance and CSR decoupling are related to each other. CSR reporting assists corporations in improving their actual performance on CSR through analysis of the corporations' strengths and weaknesses that accompanied the process of reporting on CSR (Tashman et al., 2019). Having said so, we could understand that in global business environment today, corporations invest in CSR reporting as it potentially benefits corporations in many ways. In general, CSR reporting is understood as corporations' own assessment of their CSR performance which is publicly disclosed in their annual report, sustainability report and CSR report. Dhaliwal et al. (2012) define CSR reporting as an external action that involve communicating and initiating visible efforts to win public favours. CSR reporting is a signal that corporations are accountable and transparent to their shareholders and other stakeholders, ultimately secure their sustainability (Suchman, 1995). For example, CSR reporting is often synonym with information asymmetry (Vosooghidizaji et al., 2022; Naqvi et al., 2021; Wang et al., 2020; Caputo, 2020; Hickman, 2020; García-Sánchez and Noguera-Gámez, 2017; Lopatta et al., 2016; Martínez-Ferrero et al., 2016; Michaels and Grüning, 2017) in the sense that it reduces information asymmetry, leading to reduced agency problem (caused by the information asymmetry) between managers and all stakeholders. Moreover, information on CSR is evidenced to advantage corporations when consumers may consider it in their purchasing decision (Sawicka and Marcinkowska, 2022; Nguyen and Wang, 2020; Wang et al., 2021; Ellen et al., 2006; Öberseder et al., 2011; Janssen and Vanhamme, 2015; Kim, 2017). Information on CSR is also said to influence and retain quality employees (Lee et al., 2013; Vlachos et al., 2013; Tyagi and Mallya, 2019).

In addition, information on CSR forms part of financing decision making of investors and creditors, thus, putting corporations at favourable position in securing external and internal financing (Sprinkle and Maines, 2010; Hamrouni et al., 2019; Feng et al., 2015). In general, CSR promotes brand image, contributes to a positive reputation, useful in securing clients, employees and suppliers, contributes in the increment of stock returns, increases value of corporations, and helps in efficient use of corporations' resources (Tsoutsoura, 2004; Karagiorgos, 2010; Gras-Gil et al., 2016).

On the other hand, CSR performance is generally referred to as an assessment of corporations' CSR activities and their socially responsible behaviour (Hinze and Sump, 2019), although Wood (2016) defines it more broadly as "*the principles, practices, and outcomes of businesses' relationships with people, organizations, institutions, communities, societies, and the earth, in terms of the deliberate actions of businesses toward these stakeholders as well as the unintended externalities of business activity*". This assessment is typically done externally by independent agencies specializing in rating and scoring CSR activities of corporations worldwide. Corporations have been assessed on their sustainability performance for reasons, mainly due to the growing demand for environment, social and governance where corporate disclosure on sustainability alone may not suffice to provide information useful to users' need. For example, amongst the reasons listed by established external agency who provides such service to the investors such as Kinder, Lydenberg, and Domini (KLD) include global challenges such as climate risk, increased regulatory pressures, data security concerns that represent new increasing risks for investors; as well as the new generation of investors who demand sustainability information (MSCI, 2021). In agreement, García-Sánchez et al. (2020; page 10) states *"…good CSR information can help financial analysts do their job well and reduce errors in the future earnings forecast…financial analysts would also like to confirm and assess the goodness of the reported information.*

A high number of analysts following a firm suggests a higher level of monitoring. If a firm fails to walk the CSR talk, financial analysts can play a vital role to catalyze this complex information…" Overall, credibility of CSR information is value relevant, not only for the users of information (Gao et al., 2016; Cormier and Magnan, 2014; Dhaliwal et al., 2012) but also for corporations to evaluate their own performance to reflect their confidence in sustainability related affairs (Dhaliwal et al., 2011, 2012).

Considering the influence of CSR on how it could possibly benefits corporations as mentioned, a group of researchers argues that managers tend to exaggerate their CSR, often for corporate smokescreen, undermining the actual CSR performance (García-Sánchez et al., 2020). Although CSR reporting is fully controlled by corporations, disclosure of CSR in corporate annual and sustainability reports is biased towards positive involvement of CSR, highlighting excessively on good CSR activities, almost in all cases, ignoring negative irresponsible CSR activities. CSR reporting and CSR performance have been separated ever since CSR reporting is questioned for its reliability as a true reflection of CSR performance. This situation of misalignment between CSR reporting and CSR performance is formally known as CSR decoupling (Tashman et al., 2019; García-Sánchez et al., 2021; Sauerwald and Su, 2019). Decoupling in CSR area happens for reasons. One of the reasons explains by Tashman et al. (2019) is that while CSR reporting is corporate best practice (that can be adopted by following other corporations within the same economic environment), CSR performance on the other hand involves great amount of expectations (that come from environment of complex economic networking). Thus, problem exists among corporations when it is particularly vague on how these two components should be assessed, leading to decoupling. Another common reason for CSR decoupling is the need of better reputation and securing legitimacy. For example, Deegan (2002) asserts that managers incline to engage in CSR decoupling in the event that corporations' actual performance of CSR is not up to desired level. CSR decoupling is of no means a zero cost to corporations. In actual fact, CSR decoupling may have a direct impact on corporations' reputation and legitimacy, if the negative events of CSR are extremely huge.

In line with Tashman et al. (2019), CSR decoupling evidences corporations are punished for their CSR ranking and ratings, imposed penalties, stricter regulatory oversight, and tarnished reputation through negative media publicity, to name a few. In addition, multinational corporations including Apple, Canon, Coca-Cola and Walmart are proven to involve in major scandals related to CSR conflicts, particularly environmental and social CSR (Torres et al., 2012), of which the negative cases have become topic of discussion among even academic researchers. In another case, Volkswagen startled corporate world in 2015 for its reported one of the largest corporate scandals of the decade pertaining to its emissions (Comen and Frohlich, 2019). The corporation was fined more than $25 billion in the United States for its vehicles that allegedly emitting illegally high levels of poisonous nitrogen oxides on top of fraudulent software instilled in the vehicles that has caused misleading information on the amount of chemicals released. With the said implication, García-Sánchez et al. (2021) emphasize that CSR decoupling practice, as result of deliberate course of action or emergent, is risky.

2.2.4 Trust in the Government and Tax

This subsection explains the relationship between trust in the government and tax. Prior literature mostly evident importance of trust in economic growth (Arrow, 1972; Fukuyama, 1995; Putnam, Leonardi, and Nanetti, 1993; Knack and Keefer, 1997; La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1997; Horvath, 2013), which eventually contributes to enhanced human capital, corporate governance and corporate investment (Coleman, 1988; Putnam et al., 1993; Zak and Knack, 2001). Prior studies on factors that contribute to tax avoidance practice among corporations prove that among other factors such as agency conflict between manager and shareholders, ownership structure, corporate governance, manager political connections, legal protection of investors, religiosity of tax payers, activist role and market competition (Desai and Dharmapala, 2006; Desai, Dyck, and Zingales, 2007; Chen, Chen, Cheng, and Shevlin, 2010; Desai and Dharmapala, 2008; Armstrong, Blouin, Jagolinzer, and Larcker, 2015; Minnick and Noga, 2010; Chan, Mo, and Zhou, 2013; Kim and Zhang, 2015; Atwood, Drake, Myers, and Myers, 2012; Boone, Khurana, and Raman, 2012; Dyreng, Hoopes, and Wide, 2016; Kubick, Lynch, Mayberry, and Omer, 2015), trust (C.Xia et al, 2017) is among the least discussed. Accordingly, social trust influences corporate tax avoidance in the sense that ethical behaviour and trustworthiness of a manager on tax avoidance depend on strength of social trust environment (Guiso, Sapienza, and Zingales, 2004; Jha and Chen, 2015; C.Xia et al, 2017). In a low social trust environment, managers are less ethical, dishonest and commit in more private benefits than those in strong social trust environment (Guiso, Sapienza, and Zingales, 2004; Jha and Chen, 2015; C.Xia et al, 2017). Tao et al. (2013) state that corruption and bad governance negatively influence social trust, but effective, impartial and fair bureaucracies result in increased social trust. In addition, Brehm and Rahn (1997) prove a strong relationship between trust and confidence in political institutions whereas Zmerli and Newton (2008) claim that there is significant relationship between social trust, confidence in political institutions and satisfaction with democracy. In other empirical findings surrounding trust, Rothstein and Eek (2009) claim that trust to authorities eventually affects level of social trust, whilst Mishler and Rose (2001) find that high corruption by institutions in a country results in citizen who decline to trust each other.

While above paragraph outlines prior studies in the trust area broadly and its connection to authoritative bodies and political institutions, the main focus of the current study is on the trust in the government and its relationship to tax. Focusing on recent studies, Batrancea et al. (2019) in an attempt to investigate the trust in authorities as one of the important determinant of tax compliance, find that trust in authorities increases tax compliance and reduces tax evasion. Leveraging on 44 nations in an experimental scenario study, the authors conclude that trust and power in authorities influence the compliance of tax. In another study by Nurkholis et al. (2020), the authors conclude that public trust influences tax behaviour in the way that increased public trust could reduce tax evasion. Güzel et al. (2019) conclude that trust in the government is positively related with tax compliance. Using sample data of Turkish accounting professionals, the authors also conclude that trust in the government is positively related with tax compliance through tax justice perception. In a recent working paper by Koumpias et al. (2020), the authors conclude that trust in the government is positively related with tax morale. In Indonesia, Nasution et al. (2020) prove that the trust of taxpayers influences tax compliance. While tax knowledge and tax complexity has no effect on the trust of tax payers and tax compliance, tax justice appears to have influence on the trust of taxpayers and tax compliance (Nasution et al., 2020).

In Malaysia, limited studies have been conducted to understand determinants of tax compliance although increasing issue on tax avoidance, tax non-compliance and tax evasion are becoming prominent. It is evident through a quick search in the Google Scholar databases that list almost all articles published online in various established and renowned journals. In spite of the low empirical studies on determinants of tax compliance in Malaysia, very few studies have been conducted to understand tax compliance behaviour where trust in the government is one of its determinants. For example, in a recent study by Rashid et al. (2021) to investigate the relationship between power and trust of tax administrator with tax compliance motivation, the authors find that power of tax administrators is positively related with tax compliance. In addition, Chong and Arunachalam (2018) find that trust in the government encourages trust in the tax authorities where Malaysian honour their responsibility to pay tax in the event where they trust tax authorities. In the sample of 340 individuals who participated the survey, the authors conclude that trust in the government, trust in the tax authorities and power of tax administrator directly affect tax behaviour particularly in compliance issue. Similarly, another study conducted by Faizal et al. (2017) also conclude that trust in tax authority influence tax behaviour of Malaysian where in the event of strong trust environment, taxpayers' compliance increases. Although indirect finding, Palil and Mustapha (2011) also conclude that amongst others, perception of government spending does affect tax compliance in Malaysia.

2.2.5 Regulation and Tax

This subsection highlights the relationship between regulation and tax. In a recent call for taxation issue, governments have been receiving increased pressure for improved regulations by society and media globally (Lynch-wood and Williamson, 2005). This can be seen through recent initiatives led by OECD including the OECD Guidelines for Multinational Enterprises (OECD, 2011) and the OECD G20 Corporate Governance Principles (OECD, 2016). OECD is a global publicly accepted organization which actively promoting global standards, among others including standards on international tax issues for the purpose of combating corporate tax avoidance. For example, OECD (2011) specifically addresses a chapter on taxation that is established as a flexible voluntary standard of conduct for multinational corporations. In the OECD's guideline, emphasize is made that tax planning must be done in such a way that outcome of such planning is consistent with the consequences from the planning as allowed by the law (OECD, 2011, page 60), in line with Sikka (2010; 2013) that the compliance with tax laws should be consistent with both spirit and letter of law. In the global effort of combating tax avoidance practice such as transfer pricing, OECD (2017) also lists the guidelines for transfer price and encourage corporations to include observing this transfer pricing rules as part of their CSR program highlighting that the action is crucial as they can have significant impact on division of tax base between countries where multinationals operate. Apart from establishing guidelines, OECD also monitors compliance to its guidelines.

Prior studies have evidenced connection between regulation and tax (Xynas, 2011; Atwood et al., 2012; Graetz et al., 1986; Filippin et al., 2013; Devos. 2013; Lederman, 2003; Bruno, 2019). In more recent studies, Yang et al. (2022) prove that regulation pertaining to environment encourages tax avoidance and tax evasion. Leveraging on sample corporations in China, the authors further conclude that sate-owned, larger and highly industry-competitive corporations have larger influence of environmental regulation on tax evasion. Kurniawan and Saputra (2020) use sample of Multinational Enterprises in Indonesia find that regulation pertaining to tax avoidance, particularly Country-by-Country Reporting (CbCR), reduces tax avoidance. Mocanu et al. (2021) using Romanian corporations concludes that fiscal regulations do not encourage tax avoidance practice. In another study by Overesch and Wolff (2021) to investigate the effect CbCR on tax avoidance, the authors find that regulation (of CbCR) imposed on multinational banks reduces tax avoidance although it only happens if the corporations are subjected to public scrutiny in the event where reporting reveals their tax shelter practices.

Similar to trust, studies on determinant of tax compliance as regards regulation sanction is very limited in Malaysia. Faizal et al. (2017) claim that penalties imposed on tax non-compliance may not be effective as it may not affect all taxpayers. This is supported by the findings of Mohdali et al. (2014) that conclude penalty does not affect tax compliance behaviour. Interestingly, the finding also suggests that imposition of regulation to penalise for tax non-compliance in actual fact activates intention to not comply. For example, the authors states that "…the use of threat of punishment may only encourage them to be less compliant which might indicate their rebellious attitude against the government." (Mohdali et al., 2014, page 295). Similar finding is also found in Loo Loo (2006) and Loo et al. (2009) where penalties are not found to be an effective tool to influence tax compliance among Malaysian.

2.3 Conclusion

Overall, past empirical studies in the linkage of CSR and tax avoidance evidence mixed results. A group of researchers prove negative relationship while other group proves positive relationship between CSR and tax avoidance. The mixed results of prior studies are explainable by a few main reasons including but not limited to, first, employment of limited sample of corporations within a specific country such as France, United States, Australia, United Kingdom and Canada; second, different measure of CSR as independent variable such as social audits on corporate CSR strategies, CSR ratings provided by external institutions such as Kinder, Lydenberg, and Domini (KLD), social and environmental accounting practices, and inclusion of corporations in socially responsible indexes; and third, different employment of theoretical context that ground the basis of judgement.

The current study differs in way that it intends to investigate if corporations view tax avoidance as immoral. Intention of CSR is incorporated as a concept in the current study rather than being concluded, adopting "CSR decoupling" concept. Furthermore, the current study examines if trust in the government has influence on how corporations view tax payment. Similarly, regulation is examined alongside trust in the government to investigate if regulation (sanction) influences the way corporations view tax payment. Trust in the government and regulation are deliberately chosen for examination following their recent effects in Malaysian economic setting in addition to their direct effects on tax behaviour. Whilst past studies in the area control prominent variables that could have affected tax behaviour of corporations, also none have yet to examine trust and regulation in the linkage of CSR and tax avoidance. The current study provides another new empirical evidence on the role of trust in the government and regulation in understanding corporate ethical behaviour.

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the methodology applied in the current study. Next sections discuss in detail the theoretical framework and hypotheses development; sample selected, data descriptions including database and data measurement; proxies that represent the selected variables; as well as model development and estimation technique of the current study.

3.1 Research Paradigm of the Current Study

This subsection explains the research paradigm of the current study. In an attempt to demonstrate accounting research paradigm, a study conducted by Baker and Bettner (1997) using a model developed by Laughlin (1995) demonstrates interestingly that accounting research is heavily concentrated in mainstream instrumentalist and positivist perspectives, with less concentration in interpretive and critical perspective, although more studies have started to embrace the latter. The main distinctions between these two paradigms of accounting research are in the component of theoretical and social change emphasis (Baker and Betnerr, 1997). For example, a study is categorised as instrumentalist or positivist (mainstream perspective) if it is empirically tested using statistical tools, relying heavily on relevant and past theories, with less choice of possible changes; while interpretive and critical studies are based on personal reasonable judgement of a phenomenon, less or not relying on any relevant or past theories, with high choice of possible change. Understanding a research paradigm especially its strengths and weaknesses is crucial in determining future development of research outputs that are of value and relevant to the key players, such as academic researchers or industry practitioners. For example, Tinker (1988) brings forth the scientific ideology issue surrounding social sciences studies and concludes that positivist perspective of accounting paradigm could lead to uncontained personal judgement on the numerical result due to excessive dependence of quantitative method.

The current study is surrounded in both paradigms of its literature. For example, a few articles in the area (Sikka, 2010; Hasseldine and Morris, 2013; Sikka, 2013; to name a few) are interpretive and critical in nature, adopting interpretive epistemology. Although listed in the Q2 journal, Sikka (2010) for example, is cited by many significant studies (Q1 listed articles - Hoi et al (2013); Lanis and Richardson (2012); Lanis and Richardson (2013); Huseynov and Klamm (2012); Davis et al (2015); Dowling (2014); Richardson et al (2013); to name a few). Even though these articles are undoubtedly contain tremendous logical, exciting arguments that are head-nod-able accompanying the reading process, these articles are however grounded on a personal reasonable judgement, and based on huge assumption, for example, tax avoidance is perceived as immoral, although there has been no evidence to prove that corporations actually view avoiding tax as unethical behaviour. It is fair to claim that isolation of ground test to engage key players in the field of study is the biggest critic for these articles. Having said so, positivism aspect is as important as interpretive and critical, especially in bringing the argument to the ground and proven factually.

Focal of the few early studies in the area mainly had been on the awareness of the existence of relationship between CSR and tax avoidance (Deegan, 2002; Deegan et al, 2002; Avi-Yonah, 2008; to name a few). However, past studies have gradually increased to focus on quantitative empirical method, demonstrating objectivism ontology and interpretive epistemology in context. For example, most empirical studies in this area (Hoi et al (2013); Malik (2015); Huseynov and Klamm (2012); Davis et al (2015); Watson (2015); Dowling (2014); Lanis and Richardson (2015); Gao et al (2014); Richardson et al (2013); to name a few) leverage heavily on theories in development of hypotheses and they are objectivity in nature. These studies have proven empirically the relationship between CSR and tax avoidance. Considering that the area of study is very recent (Whait et al., 2018), the current study is a quantitative in nature to boot, adopting objectivism ontology, as it is deemed fit in the context of the current study, to close the aforementioned gaps in the literature as discussed in the previous chapter. However, research direction of future studies in this area may consider a mix of positivist, interpretive and critical perspective, by incorporating both element of quantitative and qualitative in the pursuit of better judgement of the found phenomenon.

3.2 Theoretical Framework and Hypotheses Development

This subsection highlights the theoretical framework of the current study and the development of hypotheses made. As explained in previous chapter two, it is fair to assume that CSR decoupling is an act corporations deliberately do to improve public perception on their morality, since CSR is often associated with being ethical. Excess of CSR reporting over CSR performance represents deliberate improved CSR reporting for some reasons. Although other studies may prove that the deliberate improvement serves the purpose of legitimacy, however, in the context of this current study, the said deliberate improvement is important for a purpose, to understand corporations' view on what constitute moral judgement. Tax avoidance, in particular, is perceived as immoral although very limited studies have proven that corporations view tax avoidance as immoral. Grounded on neo-institutional theory as discussed above, if corporations view tax avoidance as immoral, in order to commit this unavoidable immoral tax avoidance (for reasons particularly the need to minimise cost and increase profit), they tend to improve their CSR reporting because CSR is a common legitimation strategy among corporations in corporate environment (see mimetic and coercive isomorphism concept as discussed in previous chapter). However, aligning their CSR reporting with corresponding improvement in CSR performance now may be difficult as this will require substantive CSR behaviour to the extent that it will require extensive changes to their operational capabilities to meet the CSR external assessment.

Therefore, the current study conjectures that in order for corporations to engage in tax avoidance, they must exaggerate through CSR decoupling, following other organization's legitimation strategy. Through improved CSR reporting, corporations conform to institutionalized ceremonial rules of a corporate culture that promises ethical conduct to external audiences and at the same time being efficient in managing costs through avoiding tax, explaining the decoupling device proposed by Meyer and Rowan (1977). In this CSR decoupling concept, Wickert et al. (2016) asserts that corporations may ended up in favour of CSR reporting over CSR performance, or vice versa case, for the purpose of signalling. In addition, García-Sánchez et al. (2020) assert that the said favour can be implemented using CSR as overall one dimension or within a multidimensional CSR, although the authors and recent past studies (Hawn and Ioannou, 2016; Sauerwald and Su, 2019; Tashman et al., 2019) focused their logic and operationalization on CSR decoupling as one-dimensional construct. However, the current study intends to focus investigation of CSR decoupling implemented within a multidimensional CSR, particularly community, employee and environmental. If corporations view tax avoidance as immoral, improved CSR reporting is a must to follow common legitimation strategy for committing the said unavoidable immoral tax avoidance, thus this should increases corporations' CSR decoupling. Therefore, the current study conjectures that corporations with higher CSR decoupling engage more in tax avoidance.

H1: Corporations with higher CSR decoupling engage more in tax avoidance.

H1a: Corporations with higher community CSR decoupling engage more in tax avoidance.

H1b: Corporations with higher employee CSR decoupling engage more in tax avoidance.

H1c: Corporations with higher environmental CSR decoupling engage more in tax avoidance.

Mickiewicz et al. (2019) explain "conditional cooperation" between the government and society through a logic that society demands a return from the government for the taxes paid by them as a social responsibility towards the government. The said return is an expectation that the government will act in a trustworthy and fair manner. Cooperation and compliance with certain behaviour are highly dependent on a sense of responsibility and that this responsibility can be high or low, conditional on how well one assesses the related institutions (in this context, the government). Therefore, positive assessment of the government highly likely encourages corporations to become cooperative with the government (De Castro et al., 2014; Mickiewicz et al., 2019). Tax in simple definition, is an obligation paid by society (including individuals and corporations), collected through tax offices, of whom will then make available the money to be spent by the government. However, in the event where corporations do not see the government as trustworthy and fair institution, particularly in managing tax revenue collected, this damages the said cooperation and compliance of corporations in their tax behaviour (Alon and Hageman, 2013; Kavka, 1983; Kirchler et al., 2008; Murphy, 2004; Scholz and Lubell 1998; Mickiewicz et al., 2019), leading to accepted norm of non-compliance, such as tax avoidance and evasion.

When validity of the government (including tax system which is operated by the government) is weakened and undermined, corporations tend to move to informal environment (Mickiewicz et al., 2019), keeping the resources with them rather than the government (Benk et al. 2015; Preobragenskaya and McGee 2016), avoiding themselves from the pressure of legislation (Mickiewicz et al., 2019). In summary, trust in institutions, particularly in the government, influence behaviour of corporations, particularly tax. If corporations have positive assessment on the government, they will highly likely cooperate with the government by paying tax, leading to similar set of corporate structure (out of pressure) to follow tax rules, where avoiding tax in strong trust environment is immoral. In accordance with neo-institutional theory, mimetic isomorphism explains pressure to follow others in the corporate environment to pay fair share of taxes to the government out of act of responsibility in the event of strong trust in the government. However, undermined authority (or distrust) in the government leads to non-compliance including avoiding tax, where corporations no longer see paying tax as part of being socially responsible. Therefore, the current study proposes that strong trust in the government is causing corporations to see tax payment as part of being socially responsible, hence they will not engage in tax avoidance and view avoiding tax as immoral. More formally, trust in the government weakens the relationship of CSR decoupling and CETR.

H2: Trust in the government weakens the relationship between CSR decoupling and tax avoidance.

H2a: Trust in the government weakens the relationship between community CSR decoupling and tax avoidance.

H2b: Trust in the government weakens the relationship between employee CSR decoupling and tax avoidance.

H2c: Trust in the government weakens the relationship between environmental CSR decoupling and tax avoidance.

In the context of the current study, regulation refers to perception of risk and severity of punishment associated with imposition of regulatory instrumental

(Mickiewicz et al., 2019). From institutional perspective, this regulatory instrumental involves role of formal institution, particularly the government, in establishing direct formal restrictions on human behaviour, that involve regulatory processes including rule setting, monitoring and sanctioning events (Scott, 2014; Mickiewicz et al., 2019). The main reason of this regulatory instrumental adoption in economic world is to ensure conformity to rules and regulations for either to pursue rewards or to avoid sanctions (punishment). For example, for this regulatory instrumental perspective, Mickiewicz et al. (2019) claim that in regards tax behaviour, corporations tend to weigh cost-benefit of evading tax (non-compliance) more than weighing the same for paying tax (compliance), implying practice of avoiding regulatory punishment. This action of avoiding regulatory punishment, is explained as deterrence (Mickiewicz et al., 2019), which is an action to discourage something from happening by instilling fear of the consequence.

In the context of discussion, it sounds like regulation is imposed to discourage tax avoidance to make them fear of regulatory punishment. While tax behaviour is often associated with being ethical, deterrence factor is said to have influence on tax morale (Heinemann, 2011; Mickiewicz et al., 2019), although Mickiewicz et al. (2019) reiterate that perception of individual counts in this context. Mickiewicz et al. (2019) asserts that individual who do not tolerate risk are highly concern about punishment cost more than risky person. Therefore, it is reasonable to argue that for fear of regulatory punishments, corporations will avoid tax avoidance practice that is risky to their legitimacy, with the view that corporations are bound to coercive isomorphism in securing their legitimacy. With imposition of regulation, it is fair to assume that corporations will avoid tax avoidance for fear of regulatory punishment should they violate the law. Hence, tax avoidance is seen as immoral. Thus, the current study conjectures that regulation sanction is expected to weaken the relationship of CSR decoupling and CETR.

H3: Regulation weakens the relationship between CSR decoupling and tax avoidance.

H3a: Regulation weakens the relationship between community CSR decoupling and tax avoidance.

H3b: Regulation weakens the relationship between employee CSR decoupling and tax avoidance.

H3c: Regulation weakens the relationship between environmental CSR decoupling and tax avoidance.

Below figure 3.0 demonstrates the theoretical framework of the current study.

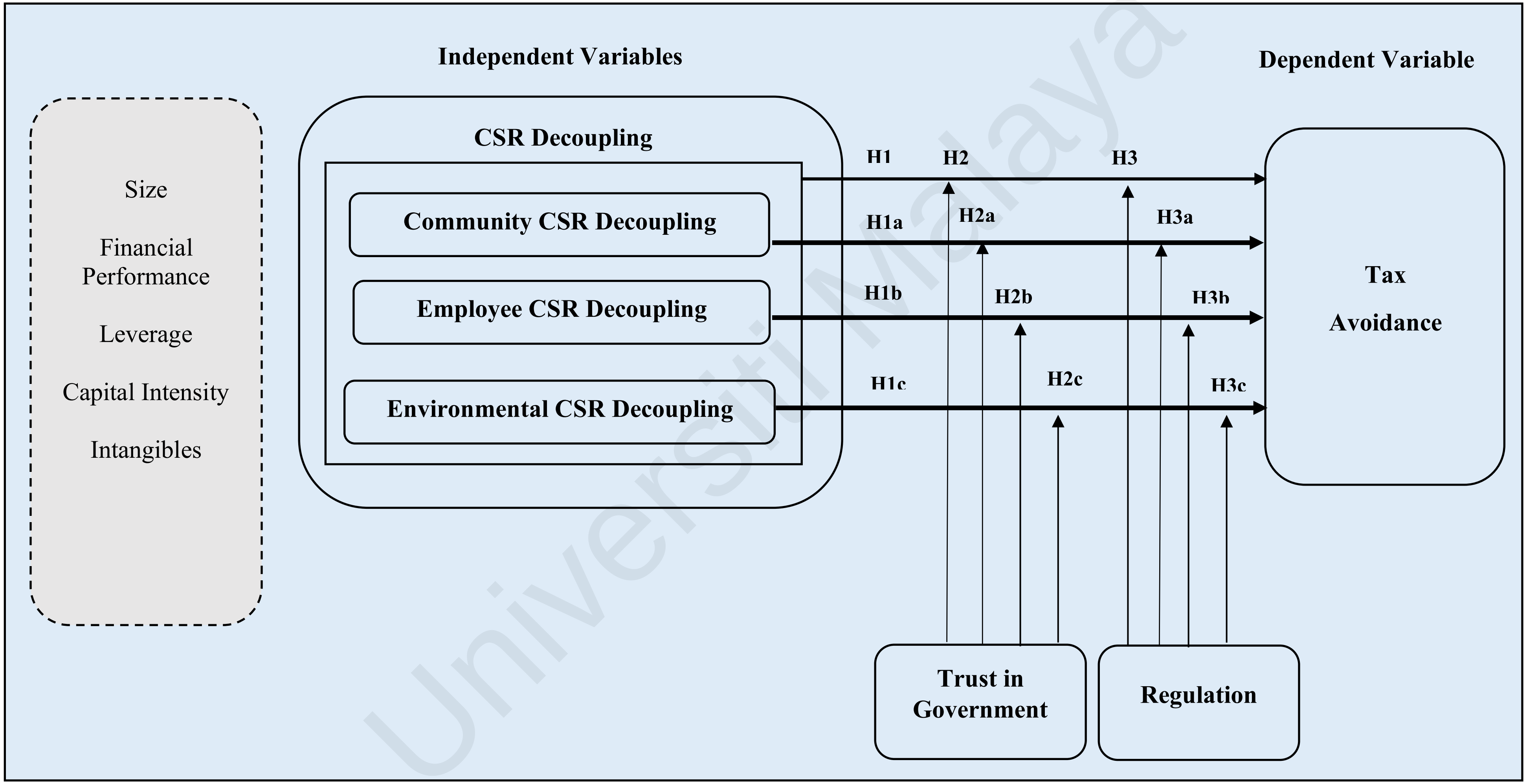

Figure 3.0: Theoretical Framework of the Current Study

3.3 Sample Selection and Data Source

This subsection explains the sample selection and data source of the current study. Unit of analysis in the current study is identified as corporation, limited to fully rated corporations in Malaysia by CSRHub. Since the context of the current study requires external independent evaluation of sustainability rating agency for measurement of a variable which is CSR performance, that form construction of independent variable involved in the current study which is CSR decoupling (further explanation in the next section), the sample corporations for the current study is limited to CSRHub database for this particular crucial reason. Although past studies that also adopt CSR performance score from CSR rating agency commonly use MSCI ESG Index (Hoi et al., 2013; Davis et al., 2016; Kim et al., 2012; Lanis and Richardson, 2015), however, MSCI ESG Index mainly focuses their sustainability rating for corporations in developed setting, limited their coverage for corporations in emerging economies, not to mention Malaysia. Therefore, in the context of emerging economies, CSRHub, "another fairly well-known" (Hynds et al., 2014) rating agency for its sustainability model that focuses their assessment to include regions in emerging economies, is selected deliberately in the current study. According to Thanetsunthorn (2015), CSRHub's approach to sustainability model has own characters that address limitations of other approaches, including their widespread coverage of assessment to include 10 different regions worldwide, allowing users better understanding of corporate behaviour from sustainability perspective in different countries, regions or cultures, as well as its rating methodology to include various sources in the assessment allowing for better judgment of corporate sustainability performance that has reduced methodological biasness.

Further examination on the fully rated corporations in Malaysia by CSRHub reveals that they are all listed corporations in Bursa Malaysia. CSRHub rates corporations in full or partial, where corporations will be rated partially unless they pass some criteria and receive an overall score (CSRHub, 2019). Partially rated corporations are those corporations with missing any one (out of three) subcategory under each CSR categories (community, employee, environment and governance)[19], making them partially rated for the unfair adjustments of overall score due to the missing information. Thus, the current study disregards partially rated corporations, to incorporate only fully rated corporations into examination, to not compromise findings of the current study. Past studies in the linkage of CSR and tax avoidance limit their sample corporations from first, Standard and Poor (SandP) Compustat database (Huseynov and Klamm, 2012; Hoi et al, 2013; Davis et al., 2016; Kim et al., 2012); second, MSCI ESG database (or also known as KLD) (Hoi et al., 2013; Davis et al., 2016; Kim et al., 2012; Lanis and Richardson, 2015); third, Vigeo database (Laguir et al., 2015); fourth, Canadian Social Investment database (Landry et al., 2013); fifth, Corporate Knights Research Group database (Zeng, 2016); sixth, non-listed firms from Inland Revenue database (Amidu et al., 2016); and lastly which most of empirical studies are centred to is the sample collected from stock exchanges (listed corporations), for example Amidu et al. (2016) for Ghana; Zeng (2019) for United States (US), Japan and United Kingdom (UK); Mao and Wu (2019) and Mao (2019) for China; Vacca et al. (2020) for Italy; Hardeck and Kirn (2016) for UK, US and Germany; Landry et al. (2015) for Canada; Lanis and Richardson (2012; 2013) for Australia. Other studies select their sample on other criteria such as Holland et al. (2016) limit their sample to seven quoted corporations by Guardian and UK Uncut, while Preuss (2010) select their sample using list of 34 tax haven countries by US Inland Revenue Service.

Initial sample of fully rated corporations in Malaysia obtained from CSRHub database comprises of a total of 72 listed corporations for a period of 11 years from 2009

[19] A note that the current study excludes governance, as it is a different area of corporate sustainability issue, independent of CSR although both are often complementary in corporate sustainability issue.

to 2019, making initial firm-year observations of 792. The period of 11 years is selected to fully utilize all complete years of data available for Malaysia in CSRHub database. In agreement, Hanlon and Heitzman (2010) claim that time series is feasible approach in tax related studies as throughout years it eliminates volatility caused by timing difference (cause by difference in accounting and tax treatment). The monthly score is aggregated and mean is calculated to represent the overall score for the year, thus, year 2020 is excluded from the data for its incomplete 12-months score, to avoid inconsistency of data input. Past studies in this area using panel data analysis have shown a range of 2 to 19 years analysis (Amidu et al., 2016; Hoi et al., 2013; Zeng, 2019; Zeng, 2016; Mao and Wu, 2019; Vacca et al., 2020; Mao, 2019; Davis et al., 2016; Laguir et al., 2015; Kim et al., 2012; Kiesewetter and Manthey, 2017; Hardeck and Kirn, 2016; Muller and Kolk, 2015; Lanis and Richardson, 2012, 2013, 2015; Landry et al., 2013). The current study further excludes corporations of first, financial, for their different tax treatment and accounting standards such as different nature of accruals (Amidu et al., 2016; Hoi et al., 2013; Zeng, 2019; Vacca et al., 2020; Laguir et al., 2015; Kim et al., 2012; Lanis and Richardson, 2012); second, partnership and income trust for their different nature, environment and market pressure (Landry et al., 2013; Zeng, 2016; Zeng, 2019); third, corporations with missing CSR data due to unavailability of annual or sustainability reports from both sources, Bursa Malaysia and corporations' websites (Laguir et al., 2015; Landry et al., 2013; Lanis and Richardson, 2012); fourth, foreign corporations for they are subjected to different tax rules, relying on International Securities Identification Numbering (ISIN) system in stock exchange[20] to define foreign corporations as corporations where their headquarters are not in Malaysia.

[20] The first two digits are reserved for security's country of origin or head office of the issuing corporations. The second grouping, which is nine characters long, is reserved for the security's unique identifying number. The final digit, known as a "check digit," assures the code's authenticity and lowers the frequency of errors or misuse.

For the missing of CSR data, 5 corporations are fully excluded from the sample, Interhill Logging Sdn Bhd where its annual report is not available via website nor Bursa Malaysia, in addition to dominant of blank score by CSRHub throughout the years. Transmile group ceases to exist with no source of corporation's website and annual report is not available anywhere. Proton Holdings where annual report available in Bursa Malaysia are only 2009 and 2010 but the years were unscored by CSRHub and its annual report for the remaining years are not available via website nor Bursa Malaysia. The company was delisted and privatised (owned) by DRB-Hicom onwards. Corporations with less than 5 years missing data which are Tanjong PLC and Plus Expressway with only 2009 and 2010 annual reports available via Bursa Malaysia are excluded to avoid potential issue of estimation procedure. Another 1 corporation is partially excluded, exclusion of only firm-year observations with missing annual report. Malaysia Airlines System Berhad with only 2009 to 2013 annual report available via Bursa Malaysia, the rest firm-year observations are excluded. Altogether, 10 financial corporations, 1 real estate investment trust, 4 foreign corporations and 5 fully excluded corporations of missing CSR data are omitted from the sample, making final sample of the current study of 52 listed corporations with final firm-year observations of 572. For quick validation, several prominent papers in the area of study for example, Laguir et al. (2015) examine 24 total corporations with 83 firm-year observations for 9 years while Lanis and Richardson (2015) with 434 firm-year observations, indicating the current sample size is reasonable given the availability of data, similar to other prominent studies in the area.

The current study intends to answer three main research questions through its selected variables. CSR decoupling and its dimensions (community, employee and environmental) are used as independent variables in achieving the first objective. Trust in the government is used as moderating variable to achieve the second objective. Regulation is used as moderating variables in achieving the third objective. In achieving all objectives, tax avoidance is used as dependent variable. Size, financial performance, leverage, capital intensity, and intangibles are control variables identified in the current study that could have impacted the examination of relationship of the intended variables involved. The current study relies on a few data sources for all the identified variables. CSR performance data is collected from the CSRHub database. CSRHub database measures sustainability performance (CSR and governance) with ratings on community, employee, environment and governance performance for Malaysia over the timeframe of interest. CSR reporting data is collected from corporate annual or sustainability report, obtained from Bursa Malaysia and each corporation's websites. To measure tax avoidance, the current study relies on financial data collected from Thomson Reuters Refinitiv Eikon database. Trust in the government data is collected from World Values Survey (WVS) database, while regulation relies on corporate tax reporting rules and guidelines from Inland Revenue Board of Malaysia (IRBM) official portal. All control variables use financial data collected from Thomson Reuters Refinitiv Eikon database. Preliminary merge of the data summarises sample of the current study to comprise of an unbalanced panel data of 52 listed corporations with firm-year observations of 572 between 2009 and 2019. All of the data are yearly basis. Below Table 3.0 summarizes the sample selection and variables involved in the current study.

Table 3.0: Summary of sample selection and variables

Sample	***Detail***
Unit of analysis	Corporation, limited to fully rated corporations in Malaysia by CSRHub.
Initial sample	72 listed corporations. Period 2009 to 2019 (11 years). 792 firm-year observations. Excluded: • 10 financial corporations • 1 real estate investment trust • 5 fully excluded corporations for missing CSR data • 4 foreign corporations
Final sample	52 listed corporations.

	Period 2009 to 2019 (11 years) 572 firm-year observations.
Variables	9 variables: • 1 independent variables • 1 dependent variable • 2 moderating variables • 5 control variables

3.4 Variables: Proxies, Source and Measurement

3.4.1 Independent Variable

This subsection highlights the independent variable used in the current study. CSR decoupling (CSRDECOUP) and its dimensions, community CSR decoupling (CommCSRDECOUP), employee CSR decoupling (EmpCSRDECOUP), and environment CSR decoupling (EnvCSRDECOUP) are the independent variables in the current study. CSR decoupling is a concept that involves misalignment between CSR reporting and CSR actual performance of corporations (Tashman et al., 2019). Following Tashman et al. (2019), CSR decoupling is measured by the excess of CSR reporting over CSR performance. CSR reporting and CSR performance are standardized into a uniform value of maximum 100 prior to calculation of difference between the two variables. Hence, CSR decoupling is measured in percentile value of minimum 0 and maximum 100. Similar to Lanis and Richardson (2012), final CSR score is standardized into percentile value. Higher value of CSR decoupling indicates higher excess of CSR reporting over CSR performance.

The current study measures CSR reporting by analysing content of corporate annual and sustainability reports pertaining to CSR disclosure. The corporate annual and sustainability reports are obtained from Bursa Malaysia (or corporations' website for any unavailability of such report in Bursa Malaysia). Marano et al. (2017: 390-391) define intensity of CSR reporting as "the extent to which firms report on a comprehensive set of

CSR issues”. Consistent with Belkaoui and Karpik (1999), quantity of disclosure in annual report can serves as one of the measurements for CSR. In addition, Botosan (1997) proposes that disclosure in annual reports can serve as one of reliable alternatives to indicate level of corporations’ voluntary disclosure. Hashim and Salleh (2007) claim that level of voluntary disclosure is positively related to amount of disclosure made in other media (Hashim and Saleh, 2007). Following similar approach in Tashman et al. (2019), CSR reporting in the current study involves a process of coding for instances that corporations address CSR issues in their annual or sustainability reports. The reason for following this approach is mainly driven by the fact that Tashman et al. (2019) quantifies CSR decoupling using both CSR reporting and CSR performance, similar to the approach applied in the current study. Tashman et al. (2019) uses MSCI’s ESG categories (environment, social and governance) in the effort of obtaining their CSR reporting coding score, in accordance with their external assessment for CSR performance obtained from the same source MSCI’ ESG rating.

Although the authors adopt overall score of the coding for CSR reporting and source of CSR reporting and performance follows MSCI ESG, however the current study intends to remain the coding of CSR reporting score in separate dimensions of CSR for further assessment, leaving CSR assessed in multi-dimension as well as using CSRHub’s sustainability categories for the reasons justified in the previous sections. Specifically, following categories under three dimensions set by CSRHub (community, employee and environment - a note that governance is excluded for the reason explained in previous chapters), for community CSR reporting, the current study measures 3 categories on issue of community development and philanthropy; product; and human rights and supply chain. Employee CSR reporting is measured by 3 categories including compensations and benefits; diversity and labour right; and training, health and safety. Finally, the current study measures 3 environmental related categories including energy and climate change; environment policy and reporting; and resource management. All of the mentioned categories are covered in the CSRHub's rating scheme. The community CSR reporting, employee CSR reporting and environmental CSR reporting are measured using binary value with '1' if the annual or sustainability reports have disclosure on the mentioned CSR issue, '0' if otherwise. Following Tashman et al. (2019), consideration of reporting relies on whether corporations explicitly disclose actions taken to address CSR issue or any potential detrimental effects from external caused by their activities related to the issue. Otherwise case especially superficial disclosure is considered as not reported. Therefore, unstandardized measure of community dimension of CSR reporting has a range of 0 to 3, similar to unstandardized measure of employee dimension of CSR reporting and environmental dimension of CSR reporting. These score of 0 to 3 will then converted to scores of maximum 100 to ensure standardization of data value with CSR performance score. For overall CSR reporting, all three CSR dimensions carrying maximum score of 3 each are aggregated. Therefore, for overall CSR reporting, unstandardized measure is a range of 0 to 9, in which later is converted to percentile of maximum 100, similar to the rest others. Refer to Table 3.1 below for description of CSR reporting indicators adopted from Tashman et al. (2019) according to categories by CSRHub's schema.

The current study measures CSR performance based on CSR scores in CSRHub database, which are continuous measures between 0 and 100, of which 100 is the highest score representing perfect positive rating. CSRHub leverages data from various sources including but not limited to ESG analysis firms, ASSET4 Thomson Reuters, Carbon Disclosure Project, EIRIS, Governance Metrics International, IW Financial, MSCI (ESG Intangible Value Assessment and ESG Impact Monitor), RepRisk, Trucost, and Vigeo. In addition, CSRHub's assessment includes information collected from non-governmental institutions as well, such as foundations, associations, union groups,

Table 3.1: Description of CSR reporting indicators (adopted from Tashman et al. (2019) according to categories by CSRHub's schema)

Indicators	Description
Community	
Community development and philanthropy	1 if disclosure includes information on "charitable giving, donations of goods, volunteerism of staff time, protecting public health, management of social impacts of its operations on local communities, its land use and building design impact on the local economy and ecosystem"; otherwise 0.
Product	1 if disclosure includes information on "development, design, and management of corporation's products, services and their impacts on customers and society at large, corporation's capacity to reduce environmental costs, create new market opportunities through new sustainable technologies or processes, produce or market goods and services that enhance health and quality of life for consumers, integrity of products and sales practices including their labelling and marketing, social impacts and end-of-life disposition, product safety and quality, corporation's response to problems with safety and quality"; otherwise 0.
Human rights and supply chain	1 if disclosure includes information on "corporation's commitment to respecting fundamental human rights conventions, its ability to maintain its license to operate by supporting freedom of association and excluding child labour, transparency in overseas sourcing disclosure and monitoring, relationship with and respect for the human rights of indigenous peoples near its proposed or current operations"; otherwise 0.
Employee	
Compensations and benefits	1 if disclosure includes information on "capacity to increase its workforce loyalty and productivity through rewarding, fair, and equal compensation and financial benefits, benefits that engage employees and improve worker development, focuses on long-term employment growth and stability by promotion practices, lay-off practices, and relations with retired employees"; otherwise 0.
Diversity and labour right	1 if disclosure includes information on "workplace policies and practices covering fair and non-discriminatory treatment of employees, and its diversity policies, labour-management relations and participation by employees, National Labour Relations Board (NLRB) violations or patterns of anti-union practice, conformance to internationally recognized worker rights, fundamental labour rights including freedom of association and protection of the right to organize, right to bargain collectively, a minimum age for the employment of children, a prohibition against forced labour, lack of

	employment and occupational discrimination, equal compensation, ability to maintain diversity, provide equal opportunities regardless of gender, age, ethnicity, religion or sexual orientation, promote work-life balance"; otherwise 0.
Training, health and safety	1 if disclosure includes information on "effectiveness in providing a healthy and safe workplace, accident and safety performance, job training, safety standards and training, employee-management safety teams, programs to support the health, well-being and productivity of all employees, workplace policies and programs that boost employee morale, workplace productivity, company policies and practices to engage employees, worker development"; otherwise 0.
Environment	
Energy and climate change	1 if disclosure includes information on "effectiveness in addressing climate change through appropriate policies and strategies, energy-efficient operations, development of renewable energy and other alternative environmental technologies, energy use, emissions to air of CO2 and other Greenhouse Gas Emissions (GHG)"; otherwise 0.
Environment policy and reporting	1 if disclosure includes information on "policies and intention to reduce the environmental impact to levels that are healthy for the environment, now and in the future, environmental reporting performance, adherence to environmental reporting standards such as the Global Reporting Initiative, compliance with investor, regulatory and stakeholders' requests for transparency"; otherwise 0.
Resource management	1 if disclosure includes information on "how efficiently resources are used in manufacturing and delivering products and services including suppliers, capacity to reduce the use of materials, energy or water, efficient solutions by improving its supply chain management, environmental performance relative to production size and is monitored by the production-related Eco Intensity Ratios (EIRs) for water and energy defined as resource consumption per produced or released unit, resource materials including raw materials and packaging materials for production and related processes and packaging of products, waste and recycling performance, proportion of waste recycled of the total waste, how the corporation manages operations to benefit the local air shed and watershed, how the corporation impacts land use and local ecological stability, consumption of drinking water, industrial water and steam"; otherwise 0.

activist groups, government databases, publications, and research reports. These sources have different weightage conditional on their credibility and quality, all of which are done in accordance to Global Reporting Initiative (GRI) guidelines (CSRHub, 2019). CSR performance score for each corporation is calculated when all data from the said sources are combined to form base ratings of 12 different subcategories, which then fall into main themes with 3 subcategories under each themes, as described earlier. For the context of the current study, since CSR performance score obtained from CSRHub is in monthly basis, therefore, mean is calculated to represent overall CSR performance score for each corporation in yearly basis. Overall, measurement of community dimension of CSR performance has a range of 0 to 100, similar to the measurement of employee dimension of CSR performance and environmental dimension of CSR performance. CSR decoupling is then calculated by subtracting the CSR performance from CSR reporting. Similar to both CSR reporting and CSR performance, the final measurement of CSR decoupling is in percentile value. For example, one of the company in the sample size for the year 2009 yields overall CSR decoupling of 22 (as a result of overall CSR reporting of 77 minus overall CSR performance of 55).

3.4.2 Dependent Variable

This subsection explains the dependent variable in the current study which is tax avoidance (TAXAVOID). Tax avoidance is proxied using cash effective tax rate (CETR) measured by income tax expense currently payable (WC01451) divided by operating cash flow (WC04860). These financial data are obtained from Thomson Reuters Refinitiv Eikon database. Tax avoidance has been measured thus far using several proxies such as tax shelter probability (Hoi et al., 2013; Wilson, 2009; Kim et al., 2012; Lisowsky et al., 2013), book-tax difference (Desai and Dharmapala, 2006; Zeng, 2019; Mao, 2019; Mao and Wu, 2019; Hoi et al., 2013; Frank et al., 2009), effective tax rate (ETR) (Dyreng et al., 2010; Amidu et al., 2016; Zeng, 2019; Vacca et al., 2020; Annuar et al., 2014; Noor et al., 2008; Kiesewetter and Manthey, 2017; Hardeck and Kirn, 2016; Lanis and Richardson, 2012; Landry et al., 2013), incidences of tax audit adjustment (non-compliance) from Inland Revenue Service (Hoi et al., 2013), incidence of tax shelter position disclosed in corporations' tax return (Hoi et al. 2013), public disclosure of large tax shelter cases (Graham and Tucker, 2006), negative media coverage for corporate tax policy (Hardeck and Kirn, 2016), content analysis (Preuss, 2010), and corporations' tax dispute (Graham and Tucker, 2006; Lanis and Richardson, 2012; 2015). Most commonly used proxies of tax avoidance are ETR and book-tax difference (BTD). The current study utilizes ETR as proxy for the dependent variable tax avoidance, following majority of past studies. Consistent with Hanlon and Heitzman (2010) and Zeng (2019), ETR is commonly used proxy for its reliability of measurement, most importantly its availability of data.

Davis et al. (2016), Hoi et al. (2013), Huseynov and Klamm (2012), Kiesewetter and Manthey (2017), Hardeck and Kirn (2016), Zeng (2019), Vacca et al. (2020) use accounting ETR as proxy for tax avoidance. Laguir et al. (2015), Lanis and Richardson (2012), Landry et al. (2013), Amidu et al. (2016) use current ETR as proxy. Laguir et al. (2015) and Lanis and Richardson (2012) use ratio of tax expense over operating cash flow. These past studies evidence that over time, measurement of ETR is modified to cater loopholes of traditional calculation from ratio of total tax expenses over pre-tax income; to exclude accrual component from the numerator; to only consider cash tax paid in cash flow as numerator (see Salihu et al., 2013). In summary, ETR is calculated in earlier years using accounting ETR (total tax expense over net profit before tax), then it is modified to current ETR (current year tax expense over net profit before tax), long run cash ETR (cash tax paid over net profit before tax), income tax expense over operating cash flow, and lastly suggested version that is free from accrual element which is cash tax paid over operating cash flow.

Over time, this modification of each ETR calculations is a result of its own limitation, for example, accounting ETR is said to incorporate element of accrual (deferred tax), thus eliminating it through current ETR is more comprehensive of tax avoidance as it includes not only tax reduction, but also postponement of tax as part of tax avoidance practice (Amidu et al., 2016). However, both calculation are criticized for their volatility issue, which do not represent long term tax avoidance caused by timing difference between accounting and tax treatment, leading to modified version of calculation through long-run cash ETR to incorporate varying period of 3 to 16 years into analyses (Hanlon and Heitzman, 2010; Salihu et al., 2013). Long-run cash ETR is later criticized for its denominator of net profit before tax that has element of accrual accounting, only then it is substituted with operating cash flow to reflect actual tax burden. Afterwards, modification to the numerator is suggested to remove the effect of accrual basis too, substituting total tax expense with cash taxes paid, which is best reflection of tax avoidance that is not relative to accrual accounting (Hanlon and Heitzman, 2010; Salihu et al., 2013). This study adopts ETR that removes this said accrual element in its denominator, similar to Laguir et al. (2015), due to the availability of the data. Nevertheless, future studies could use cash tax paid as numerator to operating cash flow as denominator for the best reflection of ETR as suggested. ETR is the current rate to which corporations pay their actual tax, however, statutory tax rate (STR) is the required rate that corporations should pay to the government. The idea is that ETR should not be lower than STR, in which case the variance indicates avoidance in tax. Since excess of STR over ETR implying tax saving through tax avoidance outcome, higher CETR (to reach STR) indicates lower tax avoidance (Amidu et al., 2016; Zeng, 2019). For the current study, final calculation of CETR is truncated to a range of 0 to 1, where it is set to 0 when the value is negative, while CETR is set to 1 when the value is more than 1, to allow for meaningful interpretation (Kiesewetter and Manthey, 2017; Hardeck and Kirn, 2016; Lanis and Richardson, 2012; Landry et al., 2013).

3.4.3 Moderating Variables

This subsection explains the moderating variables in the current study which are trust in the government (TRUST) and regulation (REG). Trust in the government is measured by survey score from World Value Survey (WVS) database. Past studies that investigate relationship between trust and tax morale to this extent mostly rely on survey as measurement equivalence of trust. For example, Torgler (2012) studies relationship between all institutional variables such as trust in the government, trust in justice system, trust in European Union, governance quality and religiosity with tax morale using survey score of European Values Study (EVS) 1999/2000 and 2008 for trust. Heinemann (2011) studies confidence in parliament as one of the variables to understand tax behaviour, uses survey score of WVS in four waves from 1981 to 2003. Hug and Spo¨rri (2011) investigate tax morale with trust in parliament, trust in government, and trust in legal system as part of their variables also use survey score of WVS from 1995 to 1997. Marien and Hooghe (2011) investigate tax avoidance through political trust as one of variables involved, use survey score of EVS 1999–2001.

Torgler et. al. (2007) investigate tax morale using trust in parliament and trust in justice system as one of variables in the study measuring trust by survey score of EVS 1999/2000. Lago-Pen˜as and Lago-Pen˜as (2010) study tax morale uses trust in politicians measured by survey score of European social survey 2004–2005. Martı´nez-Va´zquez and Torgler (2009) investigate tax behaviour using trust in the parliament, religiosity, and national pride measured by survey score of WVS and EVS values 1981, 1990, 1995 and 1999/2000 for its trust variable. Mickiewicz et al. (2019) study tax morale using institutional dimensions such as confidence in government and tax authorities, social identity and formal sanction effectiveness use survey score of WVS for their trust variable. Kanagaretnam et al. (2018) and Chan et al. (2017) also utilize survey score of WVS and EVS in their study for trust measurement. C.Xia et al. (2017) uses survey score of Chinese Enterprise Survey System for their social trust measurement. In summary, the latent construct of trust is widely measured by a survey, either the authors' own construction of survey (see Mickiewicz et al. for confidence in tax authorities) or survey score by research programmes or other bodies such as European Values Study, World Value Survey, The World Bank country survey, Chinese Enterprise Survey System, to name a few.

This current study relies on the survey score from WVS for two main reasons. First, WVS is the largest non-commercial academic social survey program that is most widely used by prominent scholars, as evidenced in the past studies mentioned above, to name a few. Consistent with Chan et al. (2017), "… World Values Survey/WVS (2015) and European Values Study /EVS (2011), two surveys that to date have been the main sources for tax morale exploration". WVS data were collected with face-to-face interviews conducted by professional survey bodies (Cullen et al., 2004). Second, WVS survey data are the most recent in addition to its wide coverage of 39 years' time frame. For example, the most current WVS wave 7 covers period from 2017 to 2021 representing the most recent survey conducted in participating countries. Since the survey is conducted every 5 years, the current study can benefit from utilization of three waves which are WVS wave 5, WVS wave 6 and WVS wave 7, as they incorporate changes to the trust in the government during the stipulated time frame of the current study.

Following prior studies above, the current study adopt measurement of trust in the government based on response to the item "Confidence: The Government" from WVS Wave 5, WVS Wave 6 and WVS Wave 7 on the question "I am going to name a number of organizations. For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?" The current study uses existing scale recording in WVS database (see WVS explanatory note on scale recording), adopting recorded positive scale where largest numeric value of the scale should correspond to the strongest positive answer option (Haerpfer et al., 2020). Therefore, the current study codes the response to this question as '4' if survey participants answer "A great deal", '3' if the answer is "Quite a lot", '2' if the answer is "Not very much", '1' if the answer is "None at all", and '0' if the participants answer "Don't know". The current study then calculate the weighted average score similar to method by C.Xia et al. (2017). This weighted average survey score is used as measure of trust in the government (TRUST) for individual corporations-year. Emphasis is made that the measurement of TRUST is yearly basis which is constant for all corporations but varies according to the years. For Malaysia, WVS Wave 5 survey was conducted in year 2006, WVS Wave 6 in year 2012, WVS Wave 7 in year 2018. Therefore, for the current study, survey score of Wave 5 covers period from 2009 to 2011, Wave 6 covers period from 2012 to 2017, while survey score of Wave 7 covers period from 2018 to 2019. Higher value of TRUST indicates higher trust in the government. In many past studies, individual survey score has been utilized to understand corporate behaviour, including behaviour of managers (Cullen et al., 2004; Ramasamy et al., 2010; Mickiewicz et al., 2019; to name a few). Managers, in turn, represents corporations as persons behind corporate veils who are making decision for all corporate affairs. Thus, corporations' action is highly dependent on individual unit behind them who are making decisions for them. Accordingly, Kanagaretnam et al. (2018, pp. 7) states that "…*Given that corporations are run by individ- uals, we use this measure, which is based on individuals' responses, as a proxy for mutual trust between firms and individuals within a country*…". For this reason, the current study uses this measure which is based on individual’s responses as proxy for common trust between corporations and individuals within a country, similar to concept adopted in prominent past studies such as Kanagaretnam et al. (2018) and Pevzner et al. (2015).

Regulation is measured by a dummy variable equal to ‘0’ for the years prior to imposition of regulation, and ‘1’ for the year of imposition and post imposition. The data related to imposition of regulation for corporate tax avoidance is obtained from IRBM official portal. There are several types of tax avoidance practice, commonly known as BEPS. OECD (2020) describes BEPS as “tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity or to erode tax bases through deductible payments such as interest or royalties.” Consistent with academic scholars, example of common tax avoidance strategies are transfer pricing, corporate structure and assets ownership arrangements, and thin capitalization (Benari, 2016; Jenkins and Newell, 2013; Becker et. al., 2012; Buettner and Wamser, 2007; Bartelsman and Beetsma, 2003; Clausing, 2003; Desai et. al., 2005). There are several major efforts of the government of Malaysia to combat BEPS among Malaysian corporations, including Country-by-Country Reporting (CbCR)[21], MLI and Malaysian Transfer Pricing Guidelines. These efforts to legislate tax in Malaysian corporate environment are mandatory binding arbitration on corporations, following guidelines of OECD of which Malaysia is participating country under G20 (non-OECD countries). According to IRBM, the Malaysian Transfer Pricing Guideline explains provision of Section 140A in the Income Tax Act 1967 and the Transfer Pricing Rules 2012. It governs the standard and rules based on the arm's length principle to be applied on transactions between associated persons, which has taken effect on 1 January 2009. MLI on the other hand, is the most recent effort of the Malaysian government to combat BEPS (see further details in previous chapter), where to this extent

[21] The Malaysian Income Tax (Country-by-Country Reporting) Rules 2016 (The Rules) P.U.(A) 357/2016 (IRBM, 2020a).

the signage of MLI is yet for implementation of mandatory binding arbitration on corporations (Ernst and Young, 2018) and is expected to take effect in latter year 2020 (IRBM, 2020b). CbCR is another major effort by the Malaysian government that has been gazetted on 23 December 2016, although it takes effect on corporations' financial information in year 2017 onwards. Corporations subjected to the rules are required to furnish their aggregate tax jurisdiction, for example, information on global allocation of income, taxes paid, certain indicators of the location of economic activity among tax jurisdictions in which the corporations' group operate. Since the stipulated time frame of the current study is between 2009 and 2019, CbCR legislation effort by the government of Malaysia is selected to materialize the effect of regulation in the context of the current study. Therefore, measurement of regulation prior to 2017 which is the year 2009 to 2016 is denoted as '0'; while the year 2017 to 2019 is denoted as '1'.

3.4.4 Control Variables

This subsection describes in detail all variables that are controlled in the current study. Control variables (CONTROLS) are the variables that are not intended for examination by the current study, however, they could have affected the relationship of the intended variables in examination. The current study selects control variables based on factors associated with CSR and tax avoidance, proven by past studies. These factors identified are size of corporation (SIZE), corporations' financial performance (FINPERF), corporation's leverage (LEVERAGE), capital intensity of corporations (CAPINT) and intangibles (INTANGIBLES). SIZE is likely to have effected socially responsible act of corporations and corporate tax behaviour. For example, larger corporations have more resources such as economic and political power for tax planning (Kanagaretnam et al., 2018; Irianto et al., 2017; Gupta and Newberry, 1997). In addition to bigger resources for social investment, larger corporations are subjected to higher public scrutiny, forcing corporations to act more ethically through CSR to ensure legitimacy (Hoi et. al., 2013). Following previous studies, SIZE is measured by natural logarithm of total asset (WC02999) (Laguir et al., 2015; Lanis and Richardson, 2012). The financial data is obtained from Thomson Reuters Refinitiv Eikon database. The current study controls for FINPERF for the reasons that better performing corporations have higher ETR (Lanis and Richardson, 2012) and CSR performance is related to financial performance (Lu et al., 2014). The current study measures FINPERF by return on assets (ROA) following Laguir et al. (2015). ROA is defined as pre-tax income (WC01401) divided by total assets (WC02999). The financial data is obtained from Thomson Reuters Refinitiv Eikon database. Following Laguir et al. (2015), LEVERAGE is measured by long-term debt (WC03251) divided by total asset (WC02999). CAPINT is measured by net property, plant and equipment (WC02501) divided by total assets (WC02999) (Laguir et al., 2015). INTANGIBLES is measured by intangible expenditure (WC01149) divided by total asset (WC02999) (Laguir et al., 2015). LEVERAGE, CAPINT and INTANGIBLES are controlled for the reason that they could have affected tax avoidance measure (see Hoi et al., 2013; Laguir et al., 2015). The financial data is obtained from Thomson Reuters Refinitiv Eikon database. Summary of all variables involved in the current study and their measurement, value and sources are presented in Table 3.2 below.

Table 3.2: Summary of Variables, Measurement and Sources of Data

Variable	*Measure*	*Value*	*Source*
CSR decoupling	CSR reporting minus CSR performance score.	Continuous	CSRHub database Bursa Malaysia/corporation's website
Community CSR decoupling	Community CSR reporting minus Community CSR performance score.	Continuous	CSRHub database Bursa Malaysia/corporation's website
Employee CSR decoupling	Employee CSR reporting minus Employee CSR performance score.	Continuous	CSRHub database Bursa Malaysia/corporation's website
Environmental CSR decoupling	Environmental CSR reporting minus Environmental CSR performance score.	Continuous	CSRHub database Bursa Malaysia/corporation's website
Tax avoidance	Cash Effective Tax Rate (CETR)* using income tax expense currently payable (WC01451) divided by operating cash flow (WC04860). *CETR is truncated to a range of 0 to 1 (0 for negative value, 1 for value more than 1)	Continuous	Thomson Reuters Refinitiv Eikon database
Trust in the Government	Weighted average survey score. How much confidence do you have in the government? 4 = a great deal, 3 = quiet a lot, 2 = not very much, 1 = none at all, 0 = don't know	Continuous (interval)	World Values Survey (WVS) database
Regulation	Indicator of imposition of regulation CbCR on BEPS. 0 = years prior imposition (without regulation effect), 1 = year of imposition and post imposition (with regulation effect).	Discrete (nominal)	IRBM website
Size	Natural logarithm of total asset (WC02999).	Continuous	Thomson Reuters Refinitiv Eikon database
Financial performance	Return on asset as pre-tax income (WC01401) divided by total assets (WC02999).	Continuous	Thomson Reuters Refinitiv Eikon database
Leverage	Long-term debt (WC03251) divided by total asset (WC02999).	Continuous	Thomson Reuters Refinitiv Eikon database
Capital Intensity	Net property, plant and equipment (WC02501) divided by total assets (WC02999).	Continuous	Thomson Reuters Refinitiv Eikon database
Intangible	Intangible expenditure (WC01149) divided by total asset (WC02999).	Continuous	Thomson Reuters Refinitiv Eikon database

3.5 Data Analysis Technique

This section discusses methods employed to analyse the data collected as discussed in previous sections above. The methods include descriptive statistics; correlation analysis; and panel regression analysis including significant diagnostic tests of multicollinearity, autocorrelation, heteroscedasticity and outlier. The results of all four diagnostic tests are presented in this chapter rather than the following findings chapter to ease the readers' understanding on the selection process of the current study's final model estimates.

3.5.1 STATA 16.0

This subsection discusses the statistical software used to run the regression. The current study uses STATA 16.0 to regress its RE and FE panels. Generally, choice of statistical software package used depends on individual researchers' preferences and needs. Although many other statistical software packages are able to perform similar functions of data regression, STATA is chosen in the current study particularly for two main reasons based on personal experience. First, STATA is convenient and easy to use with minimal complexity in its application. Second, STATA provides a support system online and the guidelines on the commands are easily accessible, in addition to its fast result production performance compare to other statistical software packages. Although not necessarily the reason for its application, some top universities such as Harvard and UCLA Schools of Public Health are adopting STATA too, and that feedbacks from researchers showing STATA at some point is best.[22]

3.5.2 Descriptive Statistics

This subsection explains the descriptive statistics of the current study. Descriptive statistic is common in data analysis particularly in providing ideas about characteristics of the

[22] http://fmwww.bc.edu/GStat/docs/StataVSPSS.html

sample used. Results and further discussion of this characteristic of the sample used in the current study will be presented in the next chapter. Focal of discussion in this section are centred on data examination and cleaning up prior to final regression. First, the number of observations for all variables are verified to be within expectation. The number of observations vary from one variables to another due to missing of data. INTANGIBLES yields lowest number of observations with 244 missing data out of initial 572 observations as expected for the reason that initial data pulled out from the data source for the item intangible expenditure are mostly missing throughout the years under examination. The number of observations of all other variables are verified given the availability of the data.

Second, minimum and maximum value of all variables are correct, thus verifying the accuracy of data input. Overall, preliminary checking of the data show expected value of the minimum and maximum, verifying the accuracy of data input. Third, mean and median are used to measure the centre of the data distribution. Similar value of mean and median indicates that the data are symmetric. While skewness indicates symmetricality often associated with overall shape of the curve (central point), kurtosis indicates distribution of data either peaked or flat often associated with shape of the tail. According to Brown (2006), acceptable values of skewness is within the range of -3 and 3, while kurtosis is appropriate at any value between -10 and 10. There are different views on acceptable range of skewness and kurtosis, for example, skewness is considered acceptable in a range of -2 and 2 (George and Mallery, 2010) while Bryne (2010) claims that normal skewness is in the range of -2 to 2 while kurtosis value should be within -7 and 7. Generally, normal skew is at 0 while mesokurtic is accepted at 3.[23]

[23] There are 3 types of kurtosis, namely mesokurtic, leptokurtic and platykurtic. Mesokurtic is data distribution that is moderate in breadth and curves with a medium peaked height. Leptokurtic is where the values in distribution is more in the tail and more values close to the mean (sharp peaked, heavy tail). Platykurtic is when the values in distribution is less in the tail and lesser values close to the mean (flat peaked, lighter tail with dispersed score).

First round of descriptive test indicates huge value of skewness and kurtosis for INTANGIBLES far beyond the normal range. After log-transformation, INTANGIBLES increases to normal distribution. Overall, all variables involved in the current study show reasonable level of consistency between means and medians, both values do not show huge difference as expected. As for skewness and kurtosis reading, the data are justifiably distributed within expectation (through histogram checking) although it is important to note that test of normality such as skewness and kurtosis normality test or Shapiro Wilk test may not be necessary for panel data analysis. In most cases of panel data, it is impossible for normality in data distribution. Normality assumption is a consideration when the sample size is very small. When the sample size is sufficiently large (more than 200), the normality assumption is not needed at all as the Central Limit Theorem ensures that the distribution of disturbance term will approximate normality.

Fourth, standard deviation is used to determine how spread out the data are from the mean, partly calculated by adding all the differences of each observations from the mean. Standard deviation can never be a negative amount as it measures a distance. The smallest possible value of standard deviation is 0 when all data are exactly the same. Higher standard deviation indicating greater spread in the data. Zero standard deviation indicating that there is no deviation of observations from the mean. Different studies may have different interpretation on the value of standard deviation. For example, Rumsey (2020a), statistic professor and statistic specialist at the Ohio State University, claims that in the event of observation and data recording, large standard deviation value does not necessarily a bad indicator, but mere reflection of large amount of variation in the group studied. However, generally, with normal data, most of observations are spread within 3 standard deviations on each side of the mean. All detail results of the descriptive statistics and further discussions are presented in the next chapter of findings.

3.5.3 Pearson Pairwise Correlation

This subsection discusses the correlation used for the current study. Correlation is a statistical test that is usually performed in empirical study to learn the relationship between variables involved in the study (linear or non-linear and direction between variables) and their strength (significant of P-value), before the analysis is taken to the next level using regression. Past studies often perform correlation test with main purpose of detecting multicollinearity issue between variables involved through the strength of the correlation coefficient, whether this correlation coefficient is significant to trigger the multicollinearity issue. There are two types of correlations widely used which are Pearson pairwise correlation for parametric test and Spearman correlation for non-parametric test. Pearson pairwise correlation carries four assumptions that are worthy for a restatement in this section, solely for the purpose of better grasp of statistical tests used. First assumption is that the variables involved should be continuous, if otherwise case, Spearman correlation is an alternative. Second assumption is that there needs to be a linear relationship between the variables, if otherwise case, alternative will be Spearman correlation or data transformation. Third assumption is that there should be no significant outliers. Fourth assumption is that variables should be approximately normally distributed. Except for first assumption, the rest other assumptions are able for checking using STATA. Researchers may decide whether or not to carry on Pearson correlation if this first assumption is not met. However, the unmet assumptions could result in invalid results of Pearson correlation since it is highly sensitive to issues underlie its assumptions. Thus, before performing Pearson pairwise correlation test, the current study conducts test to detect outliers using Cook's Distance Outlier test (Cook, 1977) and procedures involved to remove the outliers using STATA (if any) to meet assumption 3 of Pearson correlation, thus producing better Pearson correlation results.

Spearman correlation on the other hand is a statistical test to measure the relationship of variables and their strength too, only that it is most feasible when the variables are in ordinal or continuous scale. It is particularly useful when there are violations of normality, a non-linear relationship or when the study has ordinal variables. There are two assumptions underlying Spearman correlation. First assumption is variables in the study are ordinal or continuous. Second assumption is that variables involved must be monotonic related to each other, in which monotonic relationship happens when increase in one variables causing decrease in other variable, or variables increase or decrease in value together. Unlike Pearson correlation, Spearman correlation is not very sensitive to outliers, hence normality assumption is not necessary for this test. The main difference in these two is that parametric test of Pearson correlation is often used when mean accurately represents centre of data distribution (particularly continuous variables), as mean is more powerful. In the event where median is best represent centre of data distribution (often applied when variables involved are ordinal) researcher should consider non-parametric test of Spearman correlation.

Past studies in the area of linkage between CSR and tax avoidance mostly perform Pearson correlation for multicollinearity detection (to name a few are Davis et al., 2016; Kim et al, 2012; Lanis and Richardson, 2012; Lanis and Richardson, 2013; Lanis and Richardson, 2015). The current study differs in that it's TRUST and REG moderating variables are interval value (continuous) and nominal value (discrete) respectively, in which cases median are best representation of centre of data distribution. However, it is important to highlight that the individual terms of moderators are not the centre of concern in moderation analysis, rather, interaction terms are the main concern in the moderation analysis. Remaining variables are all ratio values (continuous), in which cases mean is more powerful centre of data distribution. In addition, normality of data distribution is not a concern for panel data, as explained earlier. Therefore, for the purpose of the current study, Pearson pairwise correlation is performed for the reasons justified above, following most prior studies in this area.

3.5.4 Panel Data Regression

This subsection discusses the panel data regression. The current study applies panel data to analyse its result, particularly unbalanced short panel data. Unbalanced panel data is the result of imperfect number of observations due to missing data of variables involved in the current study for several corporations in several years, leaving the data to consist of unbalanced firm-year observations. Short panel data is the result of sample size of 52 corporations, which is higher than time frame of 11 years. Panel data is utilized in the analysis for several reasons.

First, panel data is useful to analyse corporate dataset which is often accompanied by both cross-sectional data and time series data. Panel data that combines cross-sectional data and time series data overcomes weakness of each data at their individual level when heterogeneity issue is controlled. Panel data allows for consideration of corporation as individual unit that has different characteristic to the other units, unlike cross-sectional and time series where corporations are assumed homogenous, and if this influences the main variables examined, the estimated effects of the main variables will be biased. Thus, panel data addresses this unobserved heterogeneity, leading to a more unbiased findings. Second, since data surrounding corporations often comprise of huge list of corporations between ranges of periods and that each of the corporations own its specific effect and time effect, thus, panel data allows these effect to be controlled via correct standard errors estimation, leading to a more robust findings.

Third, panel data overcomes multicollinearity issue of time series and cross sectional data. Multicollinearity exists when coefficient estimates fluctuate significantly if independent variable changes in the model. The idea is that independent variable value can always be changed, but not other variables. But if the independent variables are correlated, changes in independent variable will result in changes of other independent variables too. The stronger the correlation, the more difficult it is to change one variable without changing another. It becomes difficult for the model to estimate the relationship between each independent variable and the dependent variable independently because the independent variables tend to change in unison (Frost, 2020). Other advantages of panel data include dynamics of adjustment process and higher degree of freedom, although these are not directly related to the reason of their application in the context of the current study.

3.5.4.1 Model Estimates

This subsection discusses the model estimates of the current study. There are three models of estimation for the current study which are Model 1, Model 2 and Model 3 as shown in detail below. Initially, the current study proposes two regression models as intended, where the first model (Model A) is developed to see the effect of CSR decoupling as one whole dimension, as well as the moderating effects of trust in the government and regulation in the relationship of CSR decoupling as single dimension with tax avoidance,[24] whereas the second model (Model B) is developed to see the effect of different dimensions of CSR studied in the relationship between CSR decoupling and tax avoidance including the indirect effect of trust in the government and regulation[25]. Since the current study involves moderation effects of trust and regulation, the presence of multicollinearity issue is highly expected where generally its recommended rectification

[24] $TAXAVOIDit = \alpha + \beta CSRDECOUPit + \xi TRUSTit + \tau REGit\ \gamma it + \theta CSRDECOUPit*TRUSTit + \kappa CSRDECOUPit*REGit + \sum \eta CONTROLSit + \varepsilon it$

$i=1, 2 \dots 52; t=2009, 2010 \dots 2019$

[25] $TAXAVOIDit = \alpha + \beta CommCSRDECOUPit + \gamma EmpCSRDECOUPit + \delta EnvCSRDECOUPit + \zeta CommCSRDECOUPit*TRUSTit + \eta EmpCSRDECOUPit*TRUSTit + \theta EnvCSRDECOUPit*TRUSTit + \kappa CommCSRDECOUPit*REGit + \lambda EmpCSRDECOUPit*REGit + \mu EnvCSRDECOUPit*REGit + \xi TRUSTit + \tau REGit + \sum \psi CONTROLSit + \varepsilon it$

$i=1, 2 \dots 52; t=2009, 2010 \dots 2019$

in moderation analysis has been the residual/mean centring of orthogonalization method. Based on the results (please see detail explanation of the results under diagnostic check of multicollinearity in subsequent section 3.4.3.3 below), it is clearly evidenced that residual-centring of orthogonalization method fixes the multicollinearity issue as it substantially reduces the Mean VIF of the models.

However, after residual-centring, multicollinearity issue in Model A is fixed (reduced from 340.39 to 8.21) but the issue in Model B does not resolved when the result is slightly above its common accepted level at 10, although the result confirms substantial reduction of the multicollinearity level (reduced from 740.85 to 16.30). Since the current study intends to retain all variables to achieve specific objectives of the study, (acknowledging limitations on the measurement of TRUST and REG - further limitation and future recommendation will be discussed in the last chapter), to overcome this issue without removal of individual variables which are contributors of high VIF in existing Model B, moderating variables of trust and regulation in Model B will be regressed separately. This method is helpful to rectify this existing multicollinearity issue above without removal of any variables intended. Therefore, final models of estimation will remain Model A, while Model B is separated into two with trust and regulation regressed separately to avoid multicollinearity issue in the models proposed. Hence, the current study uses three final models, renamed as Model 1, Model 2 and Model 3, to test its hypotheses. Below are details of the models.

Model 1 is developed to test hypothesis H1, hypothesis H2 and hypothesis H3, to see the effect of CSR decoupling as one whole dimension, as well as the moderating effects of trust in the government and regulation in the relationship of CSR decoupling as single dimension with tax avoidance.

(Model 1)

$$TAXAVOIDit = \alpha + \beta CSRDECOUPit + \xi TRUSTit + \tau REGit\ \gamma it + \theta CSRDECOUPit*TRUSTit + \kappa CSRDECOUPit*REGit + \sum \eta CONTROLSit + \varepsilon it$$

i=1, 2 …52; t=2009, 2010 …2019

The coefficient of CSR decoupling captures strength and direction of relationship between CSR decoupling and tax avoidance. Positive coefficient would suggest that corporations with higher CSR decoupling engage less in tax avoidance, implying that corporations do not view tax avoidance as immoral hence CSR and tax are not related, whereas negative coefficient would suggest that corporations with higher CSR decoupling engage more in tax avoidance indicating that corporations view tax avoidance as immoral. CONTROLS include size, financial performance, leverage, capital intensity and intangibles. All measures are as explained in the previous section above.

The current study uses the following Model 2 to test hypothesis H1a, hypothesis H1b, hypothesis H1c, hypothesis H2a, hypothesis H2b, and hypothesis H2c, to see the effect of different dimensions of CSR studied in the relationship between CSR decoupling and tax avoidance. In addition, the indirect effect of trust in the government is tested particularly in the relationships of community CSR decoupling, employee CSR decoupling and environment CSR decoupling with tax avoidance.

(Model 2)

$$TAXAVOIDit = \alpha + \beta CommCSRDECOUPit + \gamma EmpCSRDECOUPit + \delta EnvCSRDECOUPit + \zeta CommCSRDECOUPit*TRUSTit + \eta EmpCSRDECOUPit*TRUSTit + \theta EnvCSRDECOUPit*TRUSTit + \xi TRUSTit + \sum \psi CONTROLSit + \varepsilon it$$

i=1, 2 …52; t=2009, 2010 …2019

The coefficient on community CSR decoupling with trust, employee CSR decoupling with trust and environment CSR decoupling with trust, captures the influence of trust in the government in the relationship of CSR decoupling and tax avoidance. The current study posits that trust in the government weakens the relationship between CSR decoupling and tax avoidance. CONTROLS include size, financial performance, leverage, capital intensity and intangibles. All measures are as explained in the previous section above.

The current study uses the following Model 3 to test hypothesis H1a, hypothesis H1b, hypothesis H1c, hypothesis H3a, hypothesis H3b and hypothesis H3c, to see the effect of different dimensions of CSR studied in the relationship between CSR decoupling and tax avoidance. In addition, the indirect effect of regulation is tested particularly in the relationships of community CSR decoupling, employee CSR decoupling and environment CSR decoupling with tax avoidance.

(Model 3)

$$\begin{aligned} TAXAVOIDit = {} & \alpha + \beta CommCSRDECOUPit + \gamma EmpCSRDECOUPit + \\ & \delta EnvCSRDECOUPit + \kappa CommCSRDECOUPit{*}REGit + \\ & \lambda EmpCSRDECOUPit{*}REGit + \mu EnvCSRDECOUPit{*}REGit + \\ & \tau REGit + \sum\psi CONTROLSit + \varepsilon it \end{aligned}$$

i=1, 2 …52; t=2009, 2010 …2019

Similar to trust, coefficient on community CSR decoupling with regulation, employee CSR decoupling with regulation and environment CSR decoupling with regulation captures the influence of regulation in the relationship, which is expected to weaken the relationship between CSR decoupling and tax avoidance. CONTROLS include size, financial performance, leverage, capital intensity and intangibles. All measures are as explained in the previous section above.

3.5.4.2 Selection of Best Linear Unbiased Estimator – Panel OLS, Fixed Effect or Random Effect

This subsection explains the selection of best linear unbiased estimator for Panel Ordinary Least Square (OLS), Fixed Effect (FE) and Random Effect (RE). Prior studies in the area of linkage between CSR and tax avoidance have used various statistical methods to achieve their objectives, among a few studies to mention are Lanis and Richardson (2012) use tobit regression; Kiesewetter and Manthey (2017) and Muller and Kolk (2015) use ordinary least square regression; Kim et al. (2012) use multiple regression; whilst Vacca (2020) and Lanis and Richardson (2015) use logit regression to perform estimation of coefficients. Selection of regression model is unique from one study to another, highly dependent on various considerations including but not limited to data measurement of variables, complexity of models, sample size, underlying assumptions of statistical methods used, and distribution of data for variables involved. The current study uses linear regression of panel data to estimate coefficient, significance and direction of relationships between variables involved, similar to Hoi et al. (2013) for the main reason that linear regression makes the estimation procedure simple and, most importantly, these linear equations are easier to understand their interpretation on a modular level.

Since panel data involves time series and cross-sectional analysis combined, it is important to ensure correct linear model is adopted, due to the fact that basic pooled OLS model may not cater for heterogeneity assumption. Heterogeneity is generally agreed that "the units are all different from one another in fundamental unmeasured ways, and these vary across individuals/units. Panel data suggests that individuals, firms, states or countries are heterogeneous" (Law, 2018). Therefore, to overcome the heterogeneity bias, random effect (RE) model (also known as generalized least square) and fixed effect (FE) model accommodate this heterogeneity assumption by treating each unit to own their unique intercept, while restricting the overall coefficient to be homogenous. The main difference between RE and FE is that RE treat individual effect as random, while FE treat it as constant. Selection of OLS, RE or FE as best linear unbiased estimator can be done by two most commonly used tests, Breusch-Pagan LM test (Breusch Pagan, 1980) and Hausman specification test (Hausman, 1978). Detail steps on these selection of tests for the best unbiased estimator follows Law (2018).

The first test using Breusch-Pagan LM test is to detect heterogeneity in the data, particularly if OLS model or RE model best fit for the data. Since OLS assumes all corporations as homogenous, the null hypothesis conjectures that variance equals zero. Rejection of the null hypothesis will favour RE model as there is evidence of heterogeneity in the data. The second test using Hausman specification test is to decide on how to treat the heterogeneity effect as detected using Breusch-Pagan test above, particularly RE model or FE model that best fit the data. Since FE estimator only uses within variation (time-series variation), the model will be unbiased under both situations if regressors are correlated or uncorrelated with the heterogeneity effect. However, RE only works best if the heterogeneity effect is uncorrelated with the regressors, thus the null hypothesis conjectures that the heterogeneity effect and regressors are not correlated. Rejection of the null hypothesis will favour FE model.

For Model 1, Breusch-Pagan LM test shows that p-value is 0.0000 which is less than 0.05, the null hypothesis is rejected. This indicates that RE model is more appropriate than OLS model as there is considerable evidence of heterogeneity (corporation-specific effect) exists in the data. Hausman test shows that p-value is 0.0555 which is more than 0.05, the null hypothesis is not rejected. This indicates that the FE model is less appropriate and that RE model is preferred since there is no correlation between the individual effect and the regressor. For Model 2, Breusch-Pagan LM test shows that p-value is 0.0000 which is less than 0.05, the null hypothesis is rejected. This indicates that RE model is more appropriate than OLS model as there is considerable evidence of heterogeneity (corporation-specific effect) exists in the data. Hausman test shows that p-value is 0.0009 which is less than 0.05, the null hypothesis is rejected. This indicates that the RE model is less appropriate and that FE model is preferred since there is correlation between the individual effect and the regressor. For Model 3, Breusch-Pagan LM test shows that p-value is 0.0000 which is less than 0.05, the null hypothesis is rejected. This indicates that RE model is more appropriate than OLS model. Hausman test shows that p-value is 0.0001 which is less than 0.05, the null hypothesis is rejected. This indicates that the RE model is less appropriate and that FE model is preferred since there is correlation between the individual effect and the regressor. Table 3.3 summarises the results of Breusch-Pagan and Hauman test. Overall, best panel data linear regression model of the current study for Model 1 is RE while Model 2 and Model 3 are FE.

Table 3.3: Breusch-Pagan LM Test and Hausman Specification Test Result

Model	*Breusch-Pagan LM test*	*Hausman test*
Model 1	H0: Pooled OLS H1: Random Effect	H0: Random Effect H1: Fixed Effect
	137.44 (0.0000)***	17.97 (0.0555)
	Suggestion: Random Effect	**Suggestion: Random Effect**
Model 2	H0: Pooled OLS H1: Random Effect	H0: Random Effect H1: Fixed Effect
	108.50 (0.0000)***	33.18 (0.0009)***
	Suggestion: Random Effect	**Suggestion: Fixed Effect**
Model 3	H0: Pooled OLS H1: Random Effect	H0: Random Effect H1: Fixed Effect
	114.54 (0.0000)***	38.76 (0.0001)***
	Suggestion: Random Effect	**Suggestion: Fixed Effect**

Note: ***denotes rejection at 1 percent significance level. **denotes rejection at 5 percent significance level. ( ) is the p-value. Highlighted are the final linear models respectively.

3.5.4.3 Diagnostic Checks: Variance Inflation Factor (VIF) Multicollinearity Test

This subsection explains the diagnostic checks of VIF multicollinearity test performed. Multicollinearity exists when predictors (also known as explanatory or independent variables, the *x* in the equation model) are correlated with each other. When explanatory variables are correlated with each other, statistical model used produces larger standard error of regression coefficient. Larger standard error highly unlikely result in the coefficients of variables in the model to be statistically significant when regression is conducted, or in other words, it undermines the statistical significance of independent variables. One of the ways to detect multicollinearity issue in a regression is through correlation tests (such as Pearson pairwise) as conducted in earlier section. As mentioned, magnitude of strength for correlation coefficient differs from one view to another (Cohen, 1988; Rumsey, 2020b; Roberts, 2012; LaMorte, 2016) although the current study accepts *r* of 0.8 as strong correlation.

The output of correlation tests that shows strong correlation is the indicator that there could be multicollinearity issue, although it is also noted that any explanatory variables that are correlated with each other at any magnitude of strength could also cause multicollinearity issue. Therefore, another way to specifically detect multicollinearity in the regression model used is the use of Variance Inflation Factor (VIF) test. VIF quantifies severity of multicollinearity in an ordinary least squares regression analysis, where it provides information on the increment of coefficient variance as a result of collinearity. Past studies mostly rely on VIF threshold of 10 the maximum to conclude high level of multicollinearity among explanatory variables (Hair et al, 2006; Lanis and Richardson, 2012; Kutner et al., 2004), although a cutoff of 5 is also commonly used (Sheather, 2009).

As mentioned in earlier section of model estimates above, where the initial proposed models of the current study were Model A and Model B (please refer section 3.4.3.1 above), the VIF test results show that Model A has mean VIF of 340.39 whilst

Model B has mean VIF of 740.85. This is expected as interaction term and independent variable are by sense highly correlated to each other. To rectify this multicollinearity problem for moderation analysis, residual centring of orthogonalization method has been one of recommended solutions. Next sub-section discusses in detail the residual centring as one of the way to rectify this multicollinearity problem in the data of the current study.

- ***Orthogonalisation (Residual Centring) For Moderation Analysis***

Moderating variable is a variable that "influences the nature (e.g., magnitude and/or direction) of the effect of an antecedent on an outcome" (Aguinis et al., 2017: 2). Dawson (2014) in Memon et al. (2019) states that in statistics, moderating variable changes the relationship between independent and dependent variable. This change is possible in three situations; first, by strengthening the relationship; second, by weakening the relationship; third, by reversing or changing the relationship (Gardner et al., 2017). Memon et al. (2019) emphasis that the identification of moderators to not be made out of the need for complexity-driven framework, but outlining importance on how it should be carefully chosen. Therefore, two moderating variables which are trust in the government and regulation in the current study are carefully chosen based on some criteria following Memon et al. (2019; page v) to validate for this reason.

Following Memon et al. (2019), the current study performs steps in moderation analysis based on the seven key issues addressed, although only relevant key issues in regards to estimation technique are further elaborated below. First issue and third issue are on how to identify potential moderation and when to use it, which are already addressed in previous chapters of this thesis. Similar to proposal of the authors, "in most cases, a moderator is either an antecedent (independent variable) tested in past studies or a contextual factor found relevant across different fields of study." Also, the authors assert that moderating variable should be used for new theoretical insight purpose, justified by strong theoretical support of its inclusion in the framework of study. In the context of the current study, trust in the government and regulation have been tested as antecedents in tax behaviour area of study, in addition to the supported theoretical justification as outlined in chapter 2. Second issue is on the moderation analytical techniques, either simple moderation or multi-group analysis (MGA) technique to be used. For the current study, simple moderation (SM) analytical technique is employed as it is more "appropriate when the moderator is expected to exert its effect on the specific structural path(s) with the support of relevant theory". SM is applicable both if moderator is continuous or categorical. Fourth issue is on the explanation of how moderating variable directly affects dependent variable and later how its interaction term with independent variable differs in affecting the dependent variable. Fourth issue has been employed in the theoretical development of both trust in the government and regulation in previous chapter 2.

Fifth issue is on the approaches for moderation analysis, which is the centre of discussion in this section. Generally there are three approaches for moderating analysis (Memon et al., 2019; Henseler and Chin, 2010) known as product-indicator (Chin et al., 2003), two-stage (Chin et al., 2003; Henseler and Fassott, in press) and orthogonalizing (Little et al., 2006), although Henseler and Chin (2010) mention hybrid (Wold, 1982) as one of the approaches, additional to the common three, in their discussion. Henseler and Chin (2010) provides insightful information of how these different approaches to moderation effect differ from each other, however, the current study intends to focus only on orthogonalizing approach and reasons for its selection in the context of the current study. Orthogonalizing is also known as residual centring or mean-centring, often is done by "mean-centring the variables that are multiplied to form the interaction term" (Henseler and Chin, 2010). According to Henseler and Chin (2010), residual centring can be used as alternative to reduce correlation issue between independent variables and interaction terms, often presents in most cases of mean-centring. Thus, a residual is generated from regression of independent variable, moderating variable and its interaction term. This residual, the new generated variable, will be used to replace the interaction term between independent variable and moderating variable in the estimation. In regards to error structure, Henseler and Chin (2010) state that orthogonalizing approach produces unbiased error estimation as "[it] has a correlated error structure that is required to provide unbiased estimates. […]. Releasing constraints is therefore neither necessary nor possible".

Overall, selection of the moderation approaches highly depending on the objectives of the study. For example, Henseler and Chin (2010) outline useful indicators in the selection of appropriate approach to different objectives, with recommendations that the two-stage and hybrid approaches are preferable in first case scenario objective; product-indicator or orthogonalizing approach for the second and third case scenario objective.[26] The current study uses orthogonalization approach in its moderation analysis for two main reasons. First, objective of the current study is to investigate if the moderating variables have significant effects on the relationship of main variables, as well as to identify the strength of the interaction effects, which accommodate both first and second objectives case scenarios by Henseler and Chin (2010). For this reason, orthogonalizing approach is the most recommended for interaction effect analysis because in most cases (including point estimate accuracy, statistical power and prediction accuracy), orthogonalizing approach reveals "significantly and substantially more accurate prediction" (Henseler and Chin, 2010). Similar to Laguir et al. (2015), who also use secondary data for its variables, all variables used in the current study are assumed to

[26] "Is the model aimed at detecting interaction effects; that is, shall the question be answered whether the interaction delivers a significant additional explanation of the endogenous variable (first case)? Or is the model meant for finding an estimate for the true parameter of an interaction effect, thus describing the relations (second case)? Or is it the objective of the interaction model to give a better prediction of the endogenous latent variable (third case)?" (Henseler and Chin, 2010).

be reflective,[27] in which case, orthogonalizing will be more feasible approach (Memon et al., 2019). Second, orthogonalizing approach through residual centring reduces multicollinearity issue which is highly expected between independent variables and interaction terms in the current study since moderating variable regulation is dichotomously measured by a binary value of 0 and 1. Thus, orthogonalization improves the interaction model, since direct interaction between two variables highly likely resulted in a correlation. In many cases, the result of regression tends to be better and "make more sense" through orthogonalisation technique (Law, 2018).

It is important to highlight that for moderation analysis, individual terms of moderating variables (TRUST and REG) are not main concern of analysis, rather, interaction terms of moderating variables with independent variable (CSRDECOUP_TRUST, CSRDECOUP_REG, CommCSRDECOUP_TRUST, CommCSRDECOUP_REG, EmpCSRDECOUP_TRUST, EmpCSRDECOUP_REG, EnvCSRDECOUP_TRUST and EnvCSRDECOUP_REG) are the centre of moderation analysis. Therefore, the significant effects on TAXAVOID should be measured by the interactions, although individuals moderating variables may or may not be significantly related to TAXAVOID. Accordingly, Memon et al. (2019; vii) states that:

> *"[...] statistical package is used, researchers must take care of the following three key points while performing a moderation analysis. (1) First, the research should focus on the significance of the moderating effect (Z). To clarify, it is possible that a moderator variable (M) may or may not have an effect on the dependent variable (Y). Thus, the decision as to whether there is any moderating effect should be made based on a significant relationship between the moderating effect (Z) and the dependent variable (Y)."*

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[27] A construct is assumed to be reflective when "the manifest variables reflect the latent variable and they are its consequence. In contrast, a construct is assumed to be formative if the latent variable is represented by all the manifest variables and is their consequence." (Laguir et al., 2015).

Therefore, before performing regression test, orthogonalisation method is applied to replace the interaction term of CSRDECOUP_TRUST, CommCSRDECOUP_TRUST, EmpCSRDECOUP_TRUST, EnvCSRDECOUP_TRUST, CSRDECOUP_REG, CommCSRDECOUP_REG, EmpCSRDECOUP_REG, and EnvCSRDECOUP_REG, following method as prescribed in Law (2018). This method is used for one important reason which is to improve the interaction model, since direct interaction between two variables highly likely resulted in a correlation. In many cases, the result of regression tends to be better and "make more sense" through orthogonalisation technique (Law, 2018). Thus, a residual is generated from regression of independent variable, moderating variable and its interaction term. This residual, the new generated variable, will be used to replace the interaction term between independent variable and moderating variable in the estimation.

- ***VIF Results: Prior and Post Comparison Case of Multicollinearity Problem Fixed by Orthogonalization Method of Residual Centring***

Using the residuals as explained in the previous section to replace the interaction terms, VIF is performed to validate if the residual centring of orthogonalization method as discussed above rectifies the multicollinearity issue of interaction in the data. Below Table 3.4 summarises the result prior to residual-centring and post residual-centring.

Table 3.4: VIF results of Model A and Model B

		PRIOR TO RESIDUAL-CENTRING		***POST RESIDUAL-CENTRING***	
MODEL	**VARIABLES**	**VIF**	**1/VIF**	**VIF**	**1/VIF**
Model A (Model 1)	CSRDECOUP_TRUST	1651.10	0.000606	2.92	0.342211
	CSRDECOUP	1624.87	0.000615	31.26	0.031989
	CSRDECOUP_REG	44.49	0.022476	36.43	0.027450
	REG	42.95	0.023281	2.48	0.403173
	TRUST	34.00	0.029410	2.59	0.385363

	SIZE	1.57	0.636810	1.57	0.636810
	FINPERF	1.52	0.658985	1.52	0.658985
	CAPINT	1.18	0.843899	1.18	0.843899
	LEVERAGE	1.14	0.875656	1.14	0.875656
	INTANGIBLES	1.03	0.966256	1.03	0.966256
	Mean VIF	**340.39**		**8.21**	
Model B	CommCSRDECOUP_TRUST	809.52	0.001235	2.69	0.371714
	CommCSRDECOUP	831.28	0.001203	9.56	0.104552
	CommCSRDECOUP_REG	9.58	0.104363	11.57	0.086466
	EmpCSRDECOUP_TRUST	2443.87	0.000409	3.3	0.303099
	EmpCSRDECOUP	2368.6	0.000422	54.31	0.018413
	EmpCSRDECOUP_REG	56.35	0.017747	56.38	0.017736
	EnvCSRDECOUP_TRUST	2610.33	0.000383	2.47	0.404116
	EnvCSRDECOUP	2557.25	0.000391	52.3	0.01912
	EnvCSRDECOUP_REG	40.17	0.024892	55.67	0.017964
	TRUST	47.34	0.021122	2.66	0.376605
	REG	72.52	0.01379	3.06	0.326399
	SIZE	1.64	0.61074	1.64	0.61074
	FINPERF	1.6	0.625353	1.6	0.625353
	CAPINT	1.26	0.791864	1.26	0.791864
	LEVERAGE	1.18	0.849229	1.18	0.849229
	INTANGIBLES	1.12	0.896174	1.12	0.896174
	Mean VIF	**740.85**		**16.30**	

1/VIF explains that standard error for coefficient of the explanatory variable is larger by that much than if that variable had 0 correlation with other explanatory variables.

The highlighted Mean VIF in red indicates multicollinearity (above threshold 10). The VIF test results show that Model A has mean VIF of 340.39. This is expected as interaction term and independent variable are by sense highly correlated to each other. However, the mean VIF after residual-centring reduces to 8.21, following substantial reduction of CSRDECOUP_TRUST, CSRDECOUP, REG and TRUST. Model B has mean VIF prior to and post residual-centring of 740.85 and 16.30 respectively, following substantial reduction of CommCSRDECOUP_TRUST, CommCSRDECOUP, EmpCSRDECOUP_TRUST, EmpCSRDECOUP, EnvCSRDECOUP_TRUST, EnvCSRDECOUP, TRUST and REG.

Overall, the results of VIF test evidence multicollinearity issue in both models before residual-centring as the mean VIFs read more than acceptable threshold of 10 (Hair et al, 2006; Lanis and Richardson, 2012; Kutner et al., 2004). It is clearly evidenced that residual-centring of orthogonalization method fixes the multicollinearity issue, as it substantially reduces the Mean VIF of the model. After residual-centring, the mean VIF result for Model A confirms below 10, indicating no serious multicollinearity issue presence among variables in the current study. On the other hand, for Model B, the mean VIF result confirms substantial reduction from 740.85 to 16.30 after residual centring, however, the mean VIF after residual-centring is slightly more than 10, indicating concern of multicollinearity issue between variables in Model B. Since the current study intends to retain all variables to achieve specific objectives of the study, (acknowledging limitation to the measurement of TRUST and REG - further limitation and future recommendation will be discussed in the next chapter), to overcome this issue without removal of individual variables which are contributors of high VIF in existing Model B, moderating variables TRUST and REG in the model will be regressed separately. This method is helpful to rectify multicollinearity issue above. See below VIF result of Model B separated by TRUST and REG in Table 3.5, where the VIF results show below 10 after separation, rectifying the multicollinearity issue in Model B. Hence, final models of estimation for the current study will remain Model A (renamed as Model 1), while Model B is separated into two with trust and regulation regressed separately (renamed as Model 2 and Model 3 respectively) to avoid multicollinearity issue in the models proposed.

Table 3.5: VIF results of Model B rectified by separate regression of trust (Model 2) and regulation (Model 3)

		PRIOR TO RESIDUAL-CENTRING		*POST RESIDUAL-CENTRING*	
MODELS	**VARIABLES**	**VIF**	**1/VIF**	**VIF**	**1/VIF**
Model 2	CommCSRDECOUP_TRUST	375.52	0.002663	1.25	0.801312
	CommCSRDECOUP	365.96	0.002733	1.43	0.697515
	EmpCSRDECOUP_TRUST	1250.07	0.0008	1.69	0.592556
	EmpCSRDECOUP	1196.17	0.000836	1.53	0.652568
	EnvCSRDECOUP_TRUST	1951.65	0.000512	1.85	0.540505
	EnvCSRDECOUP	1901.01	0.000526	1.46	0.684278
	TRUST	19.13	0.052277	1.08	0.921736
	SIZE	1.61	0.622199	1.61	0.622199
	FINPERF	1.59	0.628982	1.59	0.628982
	CAPINT	1.24	0.803216	1.24	0.803216
	LEVERAGE	1.17	0.853082	1.17	0.853082
	INTANGIBLES	1.04	0.960165	1.04	0.960165
	Mean VIF	**588.85**		**1.41**	
Model 3	CommCSRDECOUP_REG	4.4	0.22702	NA	
	CommCSRDECOUP	1.9	0.526239		
	EmpCSRDECOUP_REG	27.48	0.036392		
	EmpCSRDECOUP	1.62	0.616202		
	EnvCSRDECOUP_REG	28.81	0.034709		
	EnvCSRDECOUP	1.42	0.705217		
	REG	28.77	0.034757		
	SIZE	1.63	0.614176		
	FINPERF	1.55	0.643713		
	CAPINT	1.23	0.813886		
	LEVERAGE	1.17	0.854157		
	INTANGIBLES	1.1	0.908952		
	Mean VIF	**8.42**			

1/VIF explains that standard error for coefficient of the explanatory variable is larger by that much than if that variable had 0 correlation with other explanatory variables.

One may argue that after all rectifications done through residual centring and separate regression models for both moderating variables, a few of individual variables' VIF in the final models are still considered as high. Given this circumstance, it is important now to highlight that multicollinearity issue in a model with the presence of products of independent and moderating variables (known as the interaction terms) is expected, hence, with or without the centring, the p-value of the square of independent variable or interaction term will be the same regardless. In this case, multicollinearity has no adverse consequence. In other simple words, in this case, multicollinearity can be safely ignored. This is validated by Paul Allison.[28] Although he takes individual VIF of greater than 2.50 to be considered as high and triggers a concern, he outlines three situations where high VIF is not a problem and in fact is safe to be ignored. In his short article titled 'When Can You Safely Ignore Multicollinearity?' published online via Statistical Horizons website (Allison, 2012), the second and third situations are the emphasis in the context of the current study.

> *"… 2. The high VIFs are caused by the inclusion of powers or products of other variables. If you specify a regression model with both x and* x^2*, there's a good chance that those two variables will be highly correlated. Similarly, if your model has x, z, and xz, both x and z are likely to be highly correlated with their product. This is not something to be concerned about, however, because the p-value for xz is not affected by the multicollinearity. This is easily demonstrated: you can greatly reduce the correlations by "centering" the variables (i.e., subtracting their means) before creating the powers or the products. But the p-value for* x^2 *or for xz will be exactly the same, regardless of whether or not you center. And all the results for the other variables (including the* R^2 *but not including the lower-order terms) will be the same in either case. So the multicollinearity has no adverse consequences.*

[28] "Paul Allison, Ph.D., is professor emeritus of the University of Pennsylvania where he taught graduate courses in methods and statistics for more than 35 years. After completing his doctorate in sociology at the University of Wisconsin, he did postdoctoral study in statistics at the University of Chicago and the University of Pennsylvania. He has published eight books and more than 75 articles on topics that include linear regression, log-linear analysis, logistic regression, structural equation models, inequality measures, missing data, and survival analysis." Source is retrieved from Statistical Horizons website at https://statisticalhorizons.com/our-instructors/paul-allison.

3. The variables with high VIFs are indicator (dummy) variables that represent a categorical variable with three or more categories. If the proportion of cases in the reference category is small, the indicator variables will necessarily have high VIFs, even if the categorical variable is not associated with other variables in the regression model. Suppose, for example, that a marital status variable has three categories: currently married, never married, and formerly married. You choose formerly married as the reference category, with indicator variables for the other two. What happens is that the correlation between those two indicators gets more negative as the fraction of people in the reference category gets smaller. For example, if 45 percent of people are never married, 45 percent are married, and 10 percent are formerly married, the VIFs for the married and never-married indicators will be at least 3.0. Is this a problem? Well, it does mean that p-values for the indicator variables may be high. But the overall test that all indicators have coefficients of zero is unaffected by the high VIFs. And nothing else in the regression is affected. If you really want to avoid the high VIFs, just choose a reference category with a larger fraction of the cases. That may be desirable in order to avoid situations where none of the individual indicators is statistically significant even though the overall set of indicators is significant."

In normal cases without interaction term variables, variables which are detected to have higher VIF will be withdrawn from the study to rectify this multicollinearity issue. However, since the current study involves variables together with their interaction terms, multicollinearity issue is hence fairly safe to be ignored (Allison, 2012). However so, reiteration is made that the overall mean VIF for all models are below acceptable threshold of 10.

3.5.4.4 Diagnostic Check: Wooldridge's Autocorrelation (Serial Correlation) Test

This subsection discusses the diagnostic check of Wooldridge's autocorrelation test performed. For autocorrelation or also known as serial correlation, Wooldridge test for autocorrelation is used to detect its existence. Using STATA, command "xtserial [respective variables]" is used. For this test, the null hypothesis indicates no autocorrelation, while alternative hypothesis indicates autocorrelation. Result shows that for Model 1, the p-value is 0.0776 which is more than 0.05, null hypothesis is not rejected, indicates that there is no autocorrelation problem. For Model 2, the p-value is 0.0694 which is more than 0.05, null hypothesis is not rejected, indicates that there is no autocorrelation problem. For Model 3, the p-value is 0.0438, null hypothesis is rejected, indicates that there is autocorrelation problem. Serial correlation can be rectified by cluster standard error estimates for linear panel models.

3.5.4.5 Diagnostic Check: Modified Wald for Groupwise Heteroscedasticity Test

This subsection discusses the diagnostic check of modified wald for groupwise heteroskedasticity test performed. For heteroskedasticity issue detection, Modified Wald Statistic for groupwise heteroskedasticity in the residuals of a fixed effect (FE) regression model is used (Greene, 2000; 598). Using STATA, command "xttest3" is used after running the FE estimation. For this test, the null hypothesis indicates homoscedasticity (constant variance), while alternative hypothesis indicates heteroskedasticity (or variances are not constant). Result shows that for Model 1, the p-value is 0.0000 which is less than 0.05, null hypothesis is rejected, indicates that there is heteroskedasticity problem. For Model 2, the p-value is 0.0000 which is less than 0.05, null hypothesis is rejected, indicates that there is heteroskedasticity problem. For Model 3, the p-value is 0.0000 which is less than 0.05, null hypothesis is rejected, indicates that there is heteroskedasticity problem. Overall, all models show heteroskedasticity problem exists.

Following suggestions by Law (2018) and Hoechle (2014), this heteroskedasticity problem will be rectified using robust standard error estimation in the final regression analysis. A note that for Model 3, since it contains both serial correlation and heteroscedasticity issues, both can be rectified using FE with heteroscedasticity and serial correlation cluster (Hoechle, 2014; Law, 2018).

3.5.4.6 Diagnostic Check: Cook's Distance Outlier Test

This subsection explains the diagnostic check of Cook's distance outlier test performed. Outliers generally is an observation that deviates from an overall pattern on a sample. Hawkins (1980) defines outlier as "Observation which deviates so much from other observations as to arouse suspicion it was generated by a different mechanism". If the outliers are removed, the observations will be more concentrated around the mean (standard deviation value will be lower approaching 0). Outlier is often caused by three cases, the first is a data entry or measurement error, the second is sampling problem and unusual conditions, the third is by natural variation. It is worth to highlight that outliers in the data that are not caused by error, which is the natural variation (also called as novelties), is not necessarily a problem (Frost, 2020). Cook Distance (D) for *i*th observation is a measure of the distance between coefficient estimates when observation *i* is included and when it is not. High value of D explains that the *i*th observation has a significant influence on estimation results and thus is considered as an outlier. Robust regression will be performed to search for the outliers and eliminate observations where D exceeds 1 (gross outliers). Following Law (2018), high influence is when $D > 4/N$, where N is the sample size.

There are all together 13 observations in the current study which are detected as outliers for Model 1, 16 in Model 2 and 15 in Model 3. Table 3.6 below shows the observations which are outliers for respective models (note that same outliers of each model also present in other models). Common rectification of outlier is to exclude the outlier transactions without removing them in the regression analysis. Therefore, in order to rectify the outlier problem in all models of the current study, final regression performed will exclude these detected outliers using "if cutoff~=1" command for STATA indicating estimation without the outliers.

Table 3.6: Outlier observations

Model 1			*Model 2*			*Model 3*		
Obs	Code	D1	Obs	Code	D2	Obs	Code	D3
92	9	0.0363	92	9	0.0272	92	9	0.031887
204	19	0.0255	204	19	0.0290	204	19	0.028578
219	20	0.0176	205	19	0.0181	205	19	0.017868
265	25	0.0199	219	20	0.0161	265	25	0.021559
284	26	0.0799	265	25	0.0247	284	26	0.080777
301	28	0.0177	284	26	0.0801	301	28	0.022904
302	28	0.0199	301	28	0.0222	302	28	0.027117
303	28	0.0211	302	28	0.0255	303	28	0.030495
304	28	0.0206	303	28	0.0281	304	28	0.028451
308	28	0.0598	304	28	0.0262	306	28	0.12674
447	41	0.0153	308	28	0.0521	308	28	0.044867
540	50	0.0234	418	38	0.0154	504	46	0.028365
544	50	0.0182	447	41	0.0171	505	46	0.030082
			505	46	0.0376	540	50	0.018522
			540	50	0.0174	544	50	0.026045
			544	50	0.0227			

d1 is gross outlier value.

3.5.4.7 Summary of Diagnostic Checks: Multicollinearity, Heteroscedasticity, Serial Correlation and Outlier

This subsection outlines the summary of all diagnostic checks performed above including multicollinearity, heteroscedasticity, serial correlation and outlier. Final validation of the data before final estimation is crucial to ensure data is considerably free of potential concerns that could result in bias estimate or undermined statistical significance of estimation. Summary of all four diagnostic checks above and their rectifications (if any) is summarised in Table 3.7 below.

Table 3.7: Summary of diagnostic checks, respective rectification and standard error estimation

Problems	***Model 1***	***Model 2***	***Model3***
Multicollinearity (VIF test)	Yes Rectification: Using residual centring orthogonalization moderation method. Final mean VIF: 8.28	Yes Rectification: Using residual centring orthogonalization moderation method. Final mean VIF: 1.41	No Rectification: NA Final mean VIF: 8.42
Heteroskedasticity (Modified Wald test)	Yes Rectification: Using robust standard error estimation in final regression.	Yes Rectification: Using robust standard error estimation in final regression.	Yes Rectification: Using cluster standard error estimation in final regression. Note: A note that for Model 3, since it contains both serial correlation and heteroscedasticity issues, both can be rectified using FE with heteroscedasticity and serial correlation cluster (Hoechle, 2014; Law, 2018).
Serial/Auto Correlation (Wooldridge test)	No Rectification: NA	No Rectification: NA	Yes Rectification: Using cluster standard error estimation in final regression.
Outlier (Cook's distance outlier test)	Yes Rectification: Exclude outliers detected in final regression.	Yes Rectification: Exclude outliers detected in final regression.	Yes Rectification: Exclude outliers detected in final regression.
Standard Error*	(Firm effect only) Robust Cluster Firm	(Firm effect only) Robust Cluster Firm	(Firm effect only) Robust Cluster Firm

Note: Suggestions of problems detection and rectification using STATA follows Law (2018) and STATA journal (Hoechle, 2014).
*F-test is performed to test the presence of fixed effect and time effect. All three models show only fixed effect is present. Since only firm fixed effect is present but no time effect, the best estimation is robust standard errors clustered by firm (Law, 2018).

3.5.5 Moderation Effect Analysis: Coefficient of Determination (R^2) and Effect Size (f^2) using Hierarchical Regression

This subsection explains the moderation effect analysis including the coefficient of determination and effect size using hierarchical regression. Since the current study involves moderation, general guidelines as to analysing and reporting moderation analysis include reporting of effect size (f^2) and its contribution to coefficient of determination (R^2) “as a function of the moderator” (Memon et al, 2019; Hair et al., 2010; Hair et al., 2012; Henseler et al., 2009). Generally, R^2 represents proportion of variation in the dependent variable that is explained by predictor variables (Hair et al., 2010; Hair et al., 2006). Although acceptable level of R^2 value depends on individual research context (Hair et al., 2010), Falk and Miller (1992) propose R^2 value of 0.10 as minimum acceptable level. In agreement, Lohmoller (1989) accept path coefficient greater than 0.1. On the other hand, f^2 is the relative effect of exogenous latent variable on endogenous latent variables by means of changes in the R^2 (Chin, 1998). According to Cohen (1998), f^2value of above 0.35 is considered as large effect size, more than 0.15 is medium effect, more than 0.02 is considered small effect, while less than 0.02 is considered to have no effect. In general, f^2 is calculated using formula below (Cohen, 1988; Selya et al., 2012; Wilson et al., 2007).

$$f^2 = \frac{R^2_{included} - R^2_{excluded}}{1 - R^2_{included}}$$

The current study uses hierarchical regression via STATA to obtain both R^2 and f^2 values. Hierarchical regression is used as it provides comparison information such as R^2 of different linear models. Hence, using hierarchical regression, the current study compares each models at two level, which are first without the moderating interactions and second with moderating interactions (Beaubien, 2014). This step is done particularly to determine if the model with moderation improves the model without moderation. It is important to highlight that hierarchical regression is rather a framework for model comparison than statistical method. As a quick validation, the R^2 value of the current study shows around the same range as of previous studies in the area. For example, Davis et al. (2016) 0.110 and Davis et al (2013) ranging from the lowest at 0.036. Summary of both R^2 and f^2 values are shown in Table 3.8 below.

Table 3.8: Coefficient of determination (R^2) and effect size (f^2) with and without moderating interaction comparison for each models

Model	*Moderating Interaction*	R^2	*F (df)*	*p*	R^2 *change*	*F(df) change*	*p*	f^2
Model 1	Without	0.221	14.107	0.000				
	With	0.240	14.092	0.000	0.019	3.110	0.046	0.03
Model 2	Without	0.210	10.879	0.000				
	With	0.233	10.975	0.000	0.022	2.375	0.071	0.03
Model 3	Without	0.205	10.961	0.000				
	With	0.221	10.016	0.000	0.016	1.706	0.166	0.02

For Model 1, the results show that without moderating interaction, the R^2 value reads 0.221 (p-value 0.000). With moderating interaction, the R^2 value reads 0.240 (p-value 0.000), which is larger than without moderating interactions. The R^2 difference between both is 0.019. The F-statistic for the difference is 3.110 (p-value 0.046). The f^2 value is 0.03. While increase in R^2 indicates improvement in the model, F-statistic indicates whether the change in R^2 (the improvement) is statistically significant. The results provide evidence that Model 1 with moderating interaction has statistically significant improvement (at 5% significance level) compares to Model 1 without moderating interaction and that there is small effect of TRUST and REG as moderators in the model.

For Model 2, the results show that without moderating interaction, the R^2 value reads 0.210 (p-value 0.000). With moderating interaction, the R^2 value reads 0.233 (p-value 0.000), which is larger than without moderating interactions. The R^2 difference between both is 0.022. The F-statistic for the difference is 2.375 (p-value 0.071). The f^2 value is 0.03. The results provide evidence that Model 2 with moderating interaction has statistically significant improvement (at 10% significance level) compares to Model 2 without moderating interaction and that there is small effect of TRUST as moderator in the model.

For Model 3, the results show that without moderating interaction, the R^2 value reads 0.205 (p-value 0.000). With moderating interaction, the R^2 value reads 0.221 (p-value 0.000), which is larger than without moderating interactions. The R^2 difference between both is 0.016. The F-statistic for the difference is 1.706 (p-value 0.166). The f^2 value is 0.02. The results provide evidence that although there is improvement in Model 3 with moderating interaction, it is however statistically insignificant and that there is small effect of REG as moderator in the model. Overall, all three models evident that the models with moderation improve the models without moderation, although the strength of the improvement may be low.

3.6 Conclusion

This chapter mainly explains the proxies used to measure all variables involved in the current study. Besides that, this chapter outlines and justifies the appropriate step by step technique to finally arrive at the best possible linear estimates for the models developed to test the hypotheses. The current study adopts panel data fixed effect and random effect to solve all its hypotheses considering that it is the best technique since it allows heterogeneity assumption by treating each unit to own their unique intercept while restricting the overall coefficient to be homogenous. The current study uses linear regression of panel data to estimate coefficient, significance and direction of relationships between variables involved for the main reason that linear regression makes the estimation procedure simple and, most importantly, these linear equations are easier to understand their interpretation on a modular level. The next chapter presents the empirical results and discussion of the findings.

CHAPTER 4: EMPIRICAL RESULT

4.0 Introduction

This chapter is organized into three main subsections. The first subsection presents the results of descriptive statistics that comprises of summary of the variables involved in the current study including their skewness, kurtosis and overall characteristic of the data. Second subsection presents the results of pairwise correlation to learn the relationship between variables involved in the current study and their strength before the analysis is taken to the next level using regression. The third subsection presents the results of random effect and fixed effect panel regressions on all models involved. The regression results are presented in a manner that first, is showing the effect of tax avoidance on CSR as one whole dimensions and second, is showing the effect of tax avoidance on different dimensions of CSR. The organization of the results as mentioned are done on all three main objectives of the current study which are first, to see the effect of tax avoidance on CSR; second, to see the influence of trust in the government in the relationship of CSR and tax avoidance; and third, to see the influence of regulation in the relationship of CSR and tax avoidance.

4.1 Descriptive Statistics

This subsection explains the results of descriptive statistics. TAXAVOID is measured using CETR which is truncated to a range of 0 to 1 as mentioned earlier in Chapter 3, thus the minimum and maximum value is 0 and 1 respectively. Higher CETR indicates lower tax avoidance. Hence, the maximum value of 1 indicates that corporations do not involve in tax avoidance while minimum value of 0 indicates otherwise. The maximum value of 1 evidences that there are cases where corporations in Malaysia do not engage in tax avoidance although it is evident that on average corporations do avoid tax (with the mean of 0.2145 approaching 0). The mean of CETR is 0.2145 while the median is 0.1801. The mean of CETR shows approximately 21 percent, which is lower than the 25 and 24 percent statutory Malaysian corporate income tax rate (year of assessment 2009 to 2015 and 2016 to 2019 respectively). This value of proxy measures of tax avoidance is reasonably consistent with prior research, ranging from approximately 17 to 26 percent with various economic settings (Davis et al, 2016; Lanis and Richardson, 2012; 2016; Muller and Kolk, 2015; Hoi et al., 2013; Huseynov and Klamm, 2012; Zeng, 2016; Landry et al., 2013). The value of CETR proxy for tax avoidance is also consistent with Salihu et al. (2015) yielding approximately 20 percent for Malaysian economic setting. According to Salihu et al. (2015), although the lower ETR than the statutory rate in Malaysian economic setting is highly likely caused by utilization of tax incentives offered by the government, it is also an indicator to tax avoidance activity by corporations. Skewness and kurtosis for CETR reading 1.8690 and 7.4633 respectively, indicating that CETR appears to be skewed to the right as the mean is greater than the median and the positive value of skewness. Positive value of kurtosis indicates that the distribution of data is peaked with thick tails.

CSRDECOUP is expected to have a range of -1 to 1, given the lowest and highest scores of CSR reporting and CSR performance are 0 and 100 respectively. Worst case scenario is 0 minus 100, or 100 minus 0 if otherwise case. Thus, minimum and maximum value of CSRDECOUP is verified. For CSRDECOUP, the mean is 0.4133 while the median is 0.4088. For overall CSR, the positive mean of CSRDECOUP indicates that on the average corporations do CSR reporting more than their actual CSR performance using CSRHub ratings, although negative minimum value of CSRDECOUP indicates presence of cases (not all) where corporations do actually perform better in their CSR than in what they report out to public. The mean of 0.4133 indicates that there is significant gap between CSR reporting and CSR actual performance among corporations. The result is nearly identical to the figure reported by Garcia Sanchez et al. (2020), although the sample used in the study is a combination of sample from four databases including Compustat, KLD STATS, Bloomberg and IBES. The maximum value of 1 shows that corporations may not perform well in CSR that CSRHub rating agency could not score their CSR related activities despite their perfect CSR disclosure in annual reports. This may suggests intention to exaggerate through CSR disclosure, supporting the high mean gap above. Skewness and kurtosis for CSRDECOUP reading 0.3737 and 5.4965 respectively, indicating CSRDECOUP appears to be skewed to the right as the mean is higher than the median and the positive value of skewness. Positive value of kurtosis indicates that the distribution of data is peaked with thick tails.

CommCSRDECOUP, EmpCSRDECOUP and EnvCSRDECOUP are expected to have a range of -1 to 1, given the lowest and highest scores of CSR reporting and CSR performance are 0 and 100 respectively. Worst case scenario is 0 minus 100, or 100 minus 0 if otherwise case. Thus, minimum and maximum value of CommCSRDECOUP, EmpCSRDECOUP and EnvCSRDECOUP are verified. For CommCSRDECOUP, the mean is 0.3404 while the median is 0.4026. Skewness and kurtosis for CommCSRDECOUP reading -0.6304 and 5.2342 respectively, indicating CommCSRDECOUP appears to be skewed to the left as the mean is lower than the median and the negative value of skewness. Positive value of kurtosis indicates that the distribution of data is peaked with thick tails. For EmpCSRDECOUP, the mean is 0.4715 while the median is 0.4417. Skewness and kurtosis for EmpCSRDECOUP reading 0.5725 and 4.1853 respectively, indicating EmpCSRDECOUP appears to be skewed to the right as the mean is greater than the median and the positive value of skewness. Positive value of kurtosis indicates that the distribution of data is peaked with thick tails. For EnvCSRDECOUP, the mean is 0.4279 while the median is 0.4369. Skewness and kurtosis for EnvCSRDECOUP reading -0.6786 and 6.0438 respectively, indicating

EnvCSRDECOUP appears to be skewed to the left as the mean is lower than the median and the negative value of skewness. Positive value of kurtosis indicates that the distribution of data is peaked with thick tails.

For different dimensions of CSR, the mean of CommCSRDECOUP, EmpCSRDECOUP and EnvCSRDECOUP are all positive indicating that on the average corporations do CSR reporting more than their actual CSR performance in CSR decisions related to community, employee and environment. In spite of the fact that average corporations exaggerate through CSR decoupling, negative minimum value indicates that there are cases where corporations do perform better in their actual performance than mere disclosure of CSR in all aspects of community, employee and environmental areas. All community, employee and environmental related CSR have maximum value of 1, indicating cases of perfect disclosure but poorly rated by CSRHub rating agency. On the other hand, community related CSR shows lowest negative minimum value of -0.7550 (to reach the perfect value of -1), indicating that there are cases where corporations do actually perform better (than mere disclosure) in community related CSR activities as compared to employee and environmental issue. EmpCSRDECOUP shows highest mean follows by EnvCSRDECOUP, where both show mean above overall CSRDECOUP. This indicates that on the average, corporations tend to exaggerate more through CSR reporting in employee related matters follows by environmental issue, as compared to community related matters. Overall, the results show significant gap between CSR reporting and CSR actual performance in community, employee and environmental related matters. This may supports evidence that corporations do exaggerate through their CSR reporting in all aspects of CSR issues.

TRUST is measured by the mean of survey score from WVS Wave 5, WVS Wave 6 and WVS Wave 7 which are 3.0183, 2.8899 and 2.4806 respectively. Hence, the minimum and maximum value are verified. For TRUST, the mean is 2.8466 while the median is 2.8899. The skewness and kurtosis of TRUST reading -1.2795 and 3.2090. The value of mean and median are almost the same, the data are almost symmetrical for TRUST although the curve is slightly skewed to the left. For trust in the government, the mean of TRUST shows approximately 2.8466 with the minimum and maximum value of 2.4806 and 3.0183 respectively, indicating that on average, there is reasonable strong trust in the government.[29] However, there are reasonably only small changes in trust over the years of examination, validating that trust does not evolve rapidly over time (C.Xia et al., 2017; Ang et al., 2015; Uslaner, 2002; Bottazzi et al., 2016). For the dummy variable, the current study reports that for REG, the vast majority of the sample (72%) comprises of corporations' financial years prior to imposition of regulation, as expected, since the imposition of regulation takes effect in the year 2017 hence. For regulation, 28 percent indicates years with imposition of regulation as expected following enforcement of CbCR in Malaysia effective year 2017. Table 4.0 below summarizes descriptive statistics of the variables used in the current study. Summary of skewness and kurtosis value is reported in Table 4.1.

Table 4.0: Descriptive Statistics

Variable		*Mean*	*Median*	*Std. Dev.*	*Min*	*Max*		*Obs*
Continuous variables								
TAXAVOID	Overall	0.2145	0.1801	0.2067	0	1	N	453
	Between			0.1304	0.0142	0.7031	n	42
	Within			0.1612	-0.4886	1.0408	T	10.7857
CSRDECOUP	Overall	0.4133	0.4088	0.1891	-0.2790	1	N	542
	Between			0.1308	0.0944	0.8103	n	52
	Within			0.1386	0.0299	0.9779	T-bar	10.4231
CommCSRDECOUP	Overall	0.3404	0.4026	0.2633	-0.7550	1	N	542
	Between			0.1908	-0.4944	0.7031	n	52
	Within			0.1833	-0.1774	1.0565	T-bar	10.4231
EmpCSRDECOUP	Overall	0.4715	0.4417	0.2314	-0.2892	1	N	542
	Between			0.1420	0.2381	0.8871	n	52
	Within			0.1855	-0.1343	1.1548	T-bar	10.4231
EnvCSRDECOUP	Overall	0.4279	0.4369	0.2493	-0.5389	1	N	542
	Between			0.1731	-0.0806	0.8440	n	52
	Within			0.1800	-0.2468	1.0738	T-bar	10.4231
TRUST	Overall	2.8466	2.8899	0.1823	2.4806	3.0183	N	542
	Between			0.0273	2.7730	2.9670	n	52

[29] A note that the answer to a score of 3 in the survey questionnaire is "quite a lot" while score 2 is for "not very much".

	Within			0.1810	2.4397	3.0517	T-bar	10.4231
SIZE	Overall	6.9994	7.0542	0.5411	5.4466	8.2522	N	453
	Between			0.5260	5.8881	8.0338	n	42
	Within			0.1322	6.3458	7.3823	T	10.7857
FINPERF	Overall	-2.8033	-2.8500	1.0914	-6.4300	0.0500	N	412
	Between			0.9308	-4.4164	-0.3473	n	42
	Within			0.5456	-5.2708	-1.3366	T-bar	9.8095
LEVERAGE	Overall	-1.8961	-1.6300	1.1202	-6.4600	1.4400	N	422
	Between			0.9141	-5.4255	-0.7073	n	41
	Within			0.6670	-5.9204	1.9496	T-bar	10.2927
CAPINT	Overall	0.3796	0.3860	0.2103	0.0058	0.9412	N	453
	Between			0.1967	0.0672	0.8445	n	42
	Within			0.0814	-0.0313	0.7776	T	10.7857
INTANGIBLES	Overall	-2.9785	-3.0243	0.9240	-5.9313	-0.8768	N	328
	Between			0.9339	-5.1679	-1.0377	n	38
	Within			0.4140	-4.4095	-1.2854	T-bar	8.6316
Dummy variables		0 (%)	1 (%)					
REG		391 (72%)	151 (28%)					542

Between: cross sectional (observation unit, total of 52 corporations).
Within: time series (observation period, total of 11 years).
Variable definitions: TAXAVOID = Income tax expense currently payable divided by operating cash flow; CommCSRDECOUP = Community CSR reporting minus Community CSR performance score; EmpCSRDECOUP = Employee CSR reporting minus Employee CSR performance score; EnvCSRDECOUP = Environmental CSR reporting minus Environmental CSR performance score; TRUST = Weighted average of survey score. How much confidence do you have in the government? 4 = a great deal, 3 = quiet a lot, 2 = not very much, 1 = none at all, 0 = don't know; SIZE = Natural logarithm of total asset; FINPERF = Natural logarithm of return on asset as pre-tax income divided by total assets; LEVERAGE = Natural logarithm of long-term debt divided by total asset; CAPINT = Net property, plant and equipment divided by total assets; INTANGIBLES = Natural logarithm of intangible expenditure divided by total asset.

Table 4.1: Skewness and Kurtosis

Variable	*Obs*	*Skewness*	*Kurtosis*
Continuous variables			
TAXAVOID	453	1.8690	7.4633
CSRDECOUP	542	0.3737	5.4965
CommCSRDECOUP	542	-0.6304	5.2342
EmpCSRDECOUP	542	0.5725	4.1853
EnvCSRDECOUP	542	-0.6786	6.0438
TRUST	542	-1.2795	3.2090
SIZE	453	-0.1841	2.3207
FINPERF	412	0.0083	3.1789
LEVERAGE	422	-1.7238	6.4491
CAPINT	453	0.1545	2.5595
INTANGIBLES	328	-0.2086	3.1697

Normal skew: 0; Mesokurtic: kurtosis of 3.

Table 4.0 also reports the descriptive statistics of other continuous variables in the regression model. SIZE has mean of 6.9994 and median of 7.0542 with skewness and kurtosis of -0.1841 and 2.3207 respectively. FINPERF has mean of -2.8033 and median of -2.8500 with skewness and kurtosis of 0.0083 and 3.1789 respectively. LEVERAGE has mean of -1.8961 and median of -1.6300 with skewness and kurtosis of -1.7238 and 6.4491 respectively. CAPINT has mean of 0.3796 and median of 0.3860 with skewness and kurtosis of 0.1545 and 2.5595 respectively. INTANGIBLES has mean of -2.9785 and median of -3.0243 with skewness and kurtosis of -0.2086 and 3.1696 respectively. For control variables, the mean of SIZE is 6.9994 with minimum and maximum value of 5.4466 and 8.2522 respectively. This indicates that sample comprises of mostly large corporations in Malaysia. For FINPERF, LEVERAGE, CAPINT and INTANGIBLES, the mean are -2.8033, -1.896, 0.3796 and -2.9785 respectively after LOG transformation. Prior to LOG transformation, the mean reads 0.9638, 3.1857, 0.3228 and 0.0063 respectively. These show that the sample corporations on the average are profit making corporations, utilizing long term debt as part of their financing strategy rather moderately, spending less on assets, and smaller ratio of intangibles shows that on average corporations' total assets are comprised mainly of tangible rather than intangible assets.

Based on the descriptive result of the current study, standard deviation of TAXAVOID is 0.2067, CSRDECOUP is 0.1891, CommCSRDECOUP is 0.2633, EmpCSRDECOUP is 0.2314, EnvCSRDECOUP is 0.2493, TRUST is 0.1823, SIZE is 0.5411, FINPERF is 1.0914, LEVERAGE is 1.1202, CAPINT is 0.2103, and INTANGIBLES is 0.9240 respectively. All variables except for SIZE are at least 3 standard deviation away from the mean, indicating normal spread of values of those variables. Standard deviation is useful particularly in detecting outliers (unusual values). The outlier test performed in previous chapter validates the presence of outlier transactions in the data.

4.2 Correlation Results

This subsection explains the correlation results of the current study. The output of correlation bears three significant information, presented in Table 4.2, which are the correlation coefficient, often denoted by symbol *r* (presented in the first row), the level of statistical significance (second row value), and the sample size (presented in the third row). There are different views as regards magnitude of strength for correlation coefficient. For example, Cohen (1988) claims that small correlation is associated with absolute value of *r* within 0.1 to 0.3; moderate correlation is associated with absolute value of *r* within 0.3 to 0.5; whereas strong correlation is associated with absolute value of *r* more than 0.5.[30] Rumsey (2020b) accepts absolute *r* at 0.3 or less as weak, within 0.3 to 0.5 as moderate and more than 0.7 as strong. In another view, *r* greater than 0.8 is generally interpreted as strong whereas *r* less than 0.5 is interpreted as weak (Roberts, 2012). LMorte (2016) suggests that *r* of 0.9 as strong whereas *r* of less than 0.2 indicates weak. Based on the different views, the current study accepts absolute *r* at 0.3 or less as weak and 0.8 or more as strong correlation, taking on average in between perspectives.

The correlation results show that tax avoidance is positively correlated with CSR decoupling although the result is insignificant, supporting prior findings that indicate positive relation between the two (Zeng, 2019; Mao, 2019; Davis et al., 2013,2016). Community CSR decoupling and employee CSR decoupling are positively correlated with tax avoidance but environmental CSR decoupling is negatively correlated, although only community related CSR yields significant relation to tax avoidance. SIZE and CAPINT are significantly negatively correlated with tax avoidance, while FINPERF is positively correlated with tax avoidance. Most of the significantly related explanatory variables in the current study show below 0.5 *r*. However, there are variables that are

[30] Absolute value refers to the amount itself regardless of its positive or negative sign.

Table 4.2: Pearson pairwise correlation results

	a	b	c	d	E	f	g	H	i	j	k	l	m	n	o	p	q	r	s	t
TAXAVOID (a)	1																			
	453																			
CSR DECOUP (b)	0.0658	1																		
	0.1622																			
	453	542																		
Comm CSRDECOUP (c)	0.1069*	0.7780*	1																	
	0.0229	0																		
	453	542	542																	
Emp CSRDECOUP (d)	0.0538	0.7114*	0.3006*	**1**																
	0.2533	0	0																	
	453	542	542	542																
Env CSRDECOUP (e)	-0.0118	0.7937*	0.4354*	0.3732*	1															
	0.8029	0	0	0																
	453	542	542	542	542															
TRUST (f)	-0.0189	-0.0074	-0.0595	0.016	0.0312	1														
	0.6891	0.8634	0.1663	0.7103	0.4687															
	453	542	542	542	542	542														

REG (g)	0.0288	0.0388	0.1074*	-0.0391	0.0111	-0.7788*	1						
	0.5403	0.3677	0.0124	0.3636	0.7964	0							
	453	542	542	542	542	542	542						
CSRDECOUP _TRUST (h)	0.0603	**0.9887***	0.7559*	0.7107*	0.7920*	0.1348*	-0.0725	1					
	0.2004	0	0	0	0	0.0017	0.0916						
	453	542	542	542	542	542	542	542					
CSRDECOUP _REG (i)	0.0543	0.1526*	0.2289*	0.0372	0.071	-0.7474*	**0.9441***	0.0333	1				
	0.2487	0.0004	0	0.3878	0.0985	0	0	0.4397					
	453	542	542	542	542	542	542	542	542				
CommCSRDECOUP _TRUST (j)	0.1041*	0.7820*	**0.9939***	0.3092*	0.4429*	0.0347	0.0343	0.7754*	0.1479*	1			
	0.0267	0	0	0	0	0.4206	0.4252	0	0.0006				
	453	542	542	542	542	542	542	542	542	542			
CommCSRDECOUP _REG (k)	0.0524	0.2018*	0.3497*	0.0284	0.0636	-0.6550*	**0.8207***	0.0900*	**0.9340***	0.2660*	1		
	0.2656	0	0	0.5091	0.1395	0	0	0.0362	0	0			
	453	542	542	542	542	542	542	542	542	542	542		
EmpCSRDECOUP _TRUST (l)	0.0467	0.7033*	0.2912*	**0.9914***	0.3728*	0.1401*	-0.1350*	0.7219*	-0.0631	0.3122*	-0.0585	1	
	0.3209	0	0	0	0	0.0011	0.0016	0	0.142	0	0.174		
	453	542	542	542	542	542	542	542	542	542	542	542	
EmpCSRDECOUP _REG (m)	0.0666	0.1215*	0.1537*	0.0567	0.0615	-0.7558*	**0.9485***	0.0046	**0.9748***	0.079	**0.8432***	-0.0468	1
	0.1572	0.0046	0.0003	0.1877	0.1529	0	0	0.9158	0	0.0663	0	0.2764	

	453	542	542	542	542	542	542	542	542	542	542	542	542						
EnvCSRDECOUP_TRUST (n)	-0.0123	0.7837*	0.4217*	0.3713*	**0.9934***	0.1397*	-0.074	0.7988*	-0.0177	0.4402*	-0.0148	0.3854*	-0.0272	1					
	0.7941	0	0	0	0	0.0011	0.0851	0	0.6807	0	0.7313	0	0.5278						
	453	542	542	542	542	542	542	542	542	542	542	542	542	542					
EnvCSRDECOUP_REG (o)	0.0357	0.1165*	0.1562*	0.0211	0.0806	-0.7460*	**0.9560***	0.0009	**0.9770***	0.0809	**0.8515***	-0.0779	**0.9694***	-0.0086	1				
	0.4484	0.0066	0.0003	0.6243	0.0607	0	0	0.9831	0	0.0597	0	0.07	0	0.842					
	453	542	542	542	542	542	542	542	542	542	542	542	542	542	542				
SIZE (p)	-0.0925*	-0.0632	0.0805	-0.2708*	0.0242	-0.0954*	0.0862	-0.0788	0.1029*	0.0655	0.1548*	-0.2786*	0.0612	0.0141	0.0792	1			
	0.0492	0.1794	0.087	0	0.6071	0.0423	0.0669	0.0941	0.0285	0.1641	0.001	0	0.1937	0.7646	0.0923				
	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453			
CAPINT (q)	-0.1592*	0.1941*	0.0989*	0.1063*	0.2343*	0.0509	-0.0578	0.1931*	-0.0178	0.1008*	-0.0184	0.1041*	-0.0025	0.2343*	-0.0313	0.0715	1		
	0.0007	0	0.0353	0.0237	0	0.2794	0.2192	0	0.7055	0.032	0.6955	0.0267	0.9575	0	0.5066	0.1286			
	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453		
FINPERF (r)	0.2247*	0.0768	0.0435	0.0693	0.0644	0.1214*	-0.1147*	0.0922	-0.1239*	0.0563	-0.1235*	0.0827	-0.1171*	0.0753	-0.1171*	-0.5596*	0.1355*	1	
	0	0.1196	0.3788	0.1603	0.1924	0.0137	0.0199	0.0616	0.0119	0.2541	0.0121	0.0938	0.0174	0.1272	0.0174	0	0.0059		
	412	412	412	412	412	412	412	412	412	412	412	412	412	412	412	412	412	412	
LEVERAGE (s)	-0.0008	-0.0718	-0.0289	-0.0971*	-0.0409	-0.0023	-0.0108	-0.073	-0.0061	-0.0285	-0.0251	-0.0982*	0.0033	-0.0432	0.0047	0.2094*	0.2320*	-0.0522	1
	0.9874	0.1407	0.5535	0.0462	0.4021	0.9623	0.8254	0.1343	0.8998	0.5593	0.6071	0.0437	0.9465	0.3762	0.923	0	0	0.3087	
	422	422	422	422	422	422	422	422	422	422	422	422	422	422	422	422	422	382	422

INTANGIBLES (t)	-0.0553	0.0018	0.059	-0.0597	-0.0083	0.0042	-0.0303	0.0045	-0.0397	0.0575	0.0349	-0.0516	-0.0835	-0.0056	-0.0641	-0.0342	-0.1186*	-0.0128	0.0559	1
	0.3184	0.9745	0.2865	0.2808	0.8809	0.9396	0.585	0.9352	0.4736	0.2995	0.5288	0.3519	0.1311	0.9195	0.2469	0.5375	0.0317	0.8284	0.3276	
	328	328	328	328	328	328	328	328	328	328	328	328	328	328	328	328	328	289	309	328

*Significance level at 5%

highly correlated with each other more than 0.8 r (highlighted in Table 4.2 above). For example, correlation coefficient between CSR decoupling and CSR decoupling-trust interaction term with correlation coefficient of 0.9887; and community CSR decoupling and community CSR decoupling-trust interaction term with correlation coefficient of 0.9939. These coefficient between explanatory variables which are more than 0.8 are red flag to multicollinearity issue that could potentially results in undermined statistical power of estimation. However, this high correlation between interaction terms and explanatory variables is anticipated, similar to many moderation analysis past studies for the reason that interaction terms are products of independent variables and moderating variables. As discussed in previous chapter, multicollinearity issue is indeed presents in the models. However, this multicollinearity issue is rectified by residual-centring orthogonalization method and separate regression models for trust and regulation, as explained in previous chapter.

4.3 Panel Data Regression

4.3.1 Empirical Result of the Relationship between CSR and Tax Avoidance

This section presents findings in response to the first research question of the current study, does CSR affect tax avoidance? The objective is to investigate the relationship between CSR decoupling and tax avoidance. Random Effects and Fixed Effects of panel regressions are executed for the intended purpose. It is worth to recapitulate that the regression results are analysed following appropriate diagnostic checks to ensure problems of multicollinearity, heteroscedasticity, auto correlation and outlier are corrected prior to analysis. The regression results for Model 1, Model 2 and Model 3 are reported in Table 4.3, Table 4.4 and Table 4.5 respectively.[31] Summary of hypotheses result is presented in Table 4.6.

Table 4.3: Regression Results for Model 1

Variables	*Pooled OLS*	*FE*	*RE*	*RE (Robust and Outlier Exclusion)*
CSRDECOUP	0.4430	0.0136	0.1509	0.4335**
	(0.3603)	(0.3329)	(0.3168)	(0.2050)
CSRDECOUP_TRUST	0.6577	0.7220	0.4192	-2.1423
	(2.5477)	(2.1682)	(2.1359)	(1.5064)
CSRDECOUP_REG	-0.3119	0.0860	-0.0625	-0.4048*
	(0.4048)	(0.3771)	(0.3591)	(0.2265)
TRUST	-0.5178	-0.6172	-0.6023	-0.2427
	(0.6407)	(0.5310)	(0.5242)	(0.3069)
REG	-0.0541	-0.0457	-0.0448	-0.0281
	(0.0403)	(0.0339)	(0.0332)	(0.0319)
SIZE	0.0102	0.0873	0.0320	0.0095
	(0.0275)	(0.0921)	(0.0414)	(0.0276)
CAPINT	-0.2842***	0.2629*	-0.0840	-0.1324*
	(0.0650)	(0.1531)	(0.0957)	(0.0710)
FINPERF	0.0445***	0.0399**	0.0424***	0.0465***
	(0.0129)	(0.0186)	(0.0153)	(0.0124)
LEVERAGE	0.0136	-0.0047	0.0025	0.0091
	(0.0107)	(0.0138)	(0.0121)	(0.0062)
INTANGIBLES	-0.0201	0.0081	-0.0011	-0.0106
	(0.0123)	(0.0238)	(0.0162)	(0.0106)
Constant	0.4040	-0.0751	0.3626	0.2285
	(0.3947)	(0.7682)	(0.4103)	(0.1878)
R-Squared	0.1270	0.0521	0.1911	0.2286
Adjusted R-Squared	0.0934	NA	NA	NA
F-statistics	3.78	1.23	12.35	36.49
Prob (F-statistics)	0.0001	0.2713	0.2624	0.0001
Observations	271	271	271	258

Note: Table shows coefficient value. Standard errors in parentheses. NA signifies that STATA does not provide the value. The dependent variable is tax avoidance measured by CETR.
*p<0.1, **p<0.05, ***p<0.01.

[31] Refer to the last column on the right for the final result after rectification. The rest other columns are shown to give information on the comparison of results using other estimators as outlined in previous chapter under selection of best linear estimator section.

Table 4.4: Regression Results for Model 2

Variables	*Pooled OLS*	*RE*	*FE*	*FE (Robust and Outlier Exclusion)*
CommCSRDECOUP	0.1046*	-0.0676	-0.1555***	-0.0562
	(0.0540)	(0.0535)	(0.0590)	(0.0376)
CommCSRDECOUP_TRUST	0.8504	0.6988	0.7510	-0.0342
	(0.8629)	(0.7461)	(0.7664)	(0.4114)
EmpCSRDECOUP	0.1403**	0.1553**	0.1657**	0.0812*
	(0.0673)	(0.0637)	(0.0666)	(0.0470)
EmpCSRDECOUP_TRUST	5.4927***	3.3391**	2.5587	1.2928
	(1.8792)	(1.7025)	(1.7317)	(1.1409)
EnvCSRDECOUP	-0.0836	0.0286	0.1041*	0.0508
	(0.0593)	(0.0590)	(0.0626)	(0.0448)
EnvCSRDECOUP_TRUST	-4.9757**	-3.7088*	-3.4543*	-2.5994*
	(2.1212)	(1.9007)	(1.9317)	(1.3854)
TRUST	0.0561	-0.1782	-0.2291	-0.1172
	(0.4084)	(0.3542)	(0.3805)	(0.2013)
SIZE	0.0138	0.0444	0.0863	0.0162
	(0.0274)	(0.0407)	(0.0887)	(0.0381)
CAPINT	-0.2943***	-0.1088	0.2861*	0.1997*
	(0.0657)	(0.0945)	(0.1495)	(0.1026)
FINPERF	0.0531***	0.0475***	0.0373**	0.0343**
	(0.0130)	(0.0154)	(0.0185)	(0.0146)
LEVERAGE	0.0143	0.0037	-0.0053	0.0069
	(0.0107)	(0.0120)	(0.0134)	(0.0080)
INTANGIBLES	-0.0155	0.0012	0.0039	-0.0079
	(0.0122)	(0.0158)	(0.0226)	(0.0144)
Constant	0.2658	0.1051	-0.3458	0.1075
	(0.2790)	(0.3465)	(0.7226)	(0.3045)
R-Squared	0.1582	0.0782	0.1195	0.1118
Adjusted R-Squared	0.1190	NA	NA	NA
F-statistics	4.04	22.27	2.51	7.24
Prob (F-statistics)	0.0000	0.0346	0.0041	0.0000
Observations	271	271	271	255

Note: Table shows coefficient value. Standard errors in parentheses. NA signifies that STATA does not provide the value. The dependent variable is tax avoidance measured by CETR.
*p<0.1, **p<0.05, ***p<0.01.

Table 4.5: Regression Results for Model 3

Variables	*Pooled OLS*	*RE*	*FE*	*FE (Cluster and Outlier Exclusion)*
CommCSRDECOUP	0.0891	-0.0752	-0.1727***	-0.0804*
	(0.0627)	(0.0591)	(0.0626)	(0.0400)
CommCSRDECOUP_REG	-0.0077	-0.0292	-0.0602	0.0553
	(0.1189)	(0.1095)	(0.1189)	(0.0516)
EmpCSRDECOUP	0.0811	0.1087*	0.1315*	0.0824
	(0.0700)	(0.0653)	(0.0680)	(0.0511)
EmpCSRDECOUP_REG	0.3900	-0.0911	-0.2485	0.1051
	(0.2965)	(0.2602)	(0.2619)	(0.1384)
EnvCSRDECOUP	-0.0588	0.0369	0.1082*	0.0974**
	(0.0590)	(0.0575)	(0.0612)	(0.0394)
EnvCSRDECOUP_REG	0.2678	0.6728**	0.7802***	-0.2698
	(0.3184)	(0.2770)	(0.2791)	(0.2320)
REG	-0.3104**	-0.2403*	-0.1943	0.0518
	(0.1367)	(0.1289)	(0.1335)	(0.0660)
SIZE	0.0155	0.0421	0.0676	0.0069
	(0.0278)	(0.0404)	(0.0886)	(0.0451)
CAPINT	-0.2597***	-0.0815	0.2885*	0.2376**
	(0.0659)	(0.0935)	(0.1494)	(0.1009)
FINPERF	0.0454***	0.0383**	0.0263	0.0229
	(0.0130)	(0.0152)	(0.0181)	(0.0144)
LEVERAGE	0.0100	-0.0010	-0.0095	0.0064
	(0.0107)	(0.0119)	(0.0133)	(0.0084)
INTANGIBLES	-0.0140	0.0029	0.0047	0.0042
	(0.0126)	(0.0159)	(0.0228)	(0.0150)
Constant	0.2678	0.0206	-0.3380	0.0963
	(0.1905)	(0.2841)	(0.6459)	(0.3249)
R-Squared	0.1424	0.0913	0.1581	0.0975
Adjusted R-Squared	0.1025	NA	NA	NA
F-statistics	3.57	22.76	2.81	5.60
Prob (F-statistics)	0.0001	0.0298	0.0013	0.0000
Observations	271	271	271	256

Note: Table shows coefficient value. Standard errors in parentheses. NA signifies that STATA does not provide the value. The dependent variable is tax avoidance measured by CETR.
*p<0.1, **p<0.05, ***p<0.01.

Table 4.6: Hypotheses Results

Hypotheses	*Expected sign*	*Results*		
H1: Corporations with higher CSR decoupling engage more in tax avoidance.	-ve	**Significant**	+ve	Not support
H1a: Corporations with higher community CSR decoupling engage more in tax avoidance.	-ve	**Significant**	-ve	**Support**
H1b: Corporations with higher employee CSR decoupling engage more in tax avoidance.	-ve	**Significant**	+ve	Not support
H1c: Corporations with higher environmental CSR decoupling engage more in tax avoidance.	-ve	**Significant**	+ve	Not support
H2: Trust in the government weakens the relationship between CSR decoupling and tax avoidance.	-ve	Insignificant	-ve	Not support*
H2a: Trust in the government weakens the relationship between community CSR decoupling and tax avoidance.	-ve	Insignificant	-ve	Not support*
H2b: Trust in the government weakens the relationship between employee CSR decoupling and tax avoidance.	-ve	Insignificant	+ve	Not support
H2c: Trust in the government weakens the relationship between environmental CSR decoupling and tax avoidance.	-ve	**Significant**	+ve	Not support
H3: Regulation weakens the relationship between CSR decoupling and tax avoidance.	-ve	**Significant**	+ve	Not support
H3a: Regulation weakens the relationship between community CSR decoupling and tax avoidance.	-ve	Insignificant	+ve	Not support
H3b: Regulation weakens the relationship between employee CSR decoupling and tax avoidance.	-ve	Insignificant	+ve	Not support
H3c: Regulation weakens the relationship between environmental CSR decoupling and tax avoidance.	-ve	Insignificant	-ve	Not support*

*The results show not support although they hit expected sign following moderation analysis of three conditions (weakens/strengthen/reverse). Positive relationship for both conditions (weaken and strengthen) will result in the same positive sign. The difference is mainly on the coefficient value. For weaken condition, coefficient value of the interaction term added to coefficient value of individual moderation must be reducing to the independent variable, but the reduction must not result in reverse relationship. For strengthen condition, coefficient value of interaction term added to coefficient value of individual moderation should make it more strong, in this situation, increase coefficient of independent variable.

4.3.1.1 Overall CSR

This subsection discusses the result of overall CSR pertaining to the linkage of CSR and tax avoidance. The result in Table 4.3 shows that regression coefficient for CSR decoupling is positive and significantly associated with CETR. Accordingly, the higher the CSR decoupling, the higher the CETR, the lower the tax avoidance. Higher CETR indicates lower likelihood that corporations avoid tax, which do not support H1. The finding of the current study suggests that corporations who exaggerate more in CSR disclosure engage less in tax avoidance indicating that overall CSR and tax strategy at corporate level may not be related. Corporations exaggerate in CSR disclosure evidences the possibility of value maximization that CSR is capable of bringing such as positive reputation; useful in securing clients, employees and suppliers; contributes in the increment of stock returns; and increases value of corporations (Sprinkle and Maines, 2010; Hamrouni et al., 2019; Feng et al., 2015; Tsoutsoura, 2004; Karagiorgos, 2010; Gras-Gil et al., 2016; Lee et al., 2013; Vlachos et al., 2013; Tyagi and Mallya, 2019; Janssen and Vanhamme, 2015; Kim, 2017). However, exaggeration in CSR disclosure but honouring tax payment at the same time may suggests that both CSR and tax are not related (Landry et al., 2013; Vacca et al., 2020). This finding conflicts the idea that CSR is part of corporate culture that influence tax avoidance (Hoi et al., 2013).

The finding also provides evidence that overall, corporations do not view tax avoidance as immoral. This result is inconsistent with the current study's conjecture that in order for corporations to engage in tax avoidance, CSR decoupling must present if corporations view tax avoidance as immoral. In fact, the result suggests otherwise that corporations do not view tax payment as socially responsible, hence they do not have to exaggerate their morality through exaggerate CSR to commit tax avoidance. In other words, if corporations decide to avoid tax, they do it without having to exaggerate through CSR because they do not view tax payment as moral. This finding is consistent with Davis et al. (2013) that assert managers do not view tax payment as socially responsible. This is further authenticated in the discussion by Hasseldine and Morris (2013) on the rationale of the linkage between CSR and tax avoidance that corporations are at liberty to exercise their own rights on their tax decision as they seem fit, allowing the practice to minimise tax payable as "nothing sinister in this approach" (Hasseldine and Morris, 2013, page 12). The result also prove that corporations do not view tax payment as socially responsible possibly due to the view that supports payment of lesser tax will increase cash flow of corporations keeping the resources managed by them because private sector corporations are more efficient in allocating resources best for society than public sector organization in handling such cases (McGee, 2010). Hence, this will result in greater social benefits such as investment to innovation, job growth and economic development (Davis et al., 2016).

4.3.1.2 Community CSR, Employee CSR and Environmental CSR

This subsection explains the result of different dimensions of CSR pertaining to the linkage of CSR and tax. The results in Table 4.4 and Table 4.5 shows that regression coefficient for community CSR decoupling is negative and significantly associated with CETR. Accordingly, the higher the CSR decoupling, the lower the CETR, the higher the tax avoidance. Lower CETR indicates higher likelihood that corporations avoid tax, which supports H1a. Laguir et al. (2015) find that community related CSR and CETR is positively related, however, finding of the current study shows otherwise. This finding proves that when it comes to community related issues, corporations who exaggerate more in CSR disclosure, engage more in tax avoidance. Corporations who commit tax avoidance use community CSR disclosure to exaggerate their ethical behaviour, supporting idea that CSR is part of corporate culture that influence tax avoidance (Hoi et al., 2013). This is further authenticated in the discussion by Sikka (2010; 2013) on the rationale of CSR and tax avoidance linkage that is in need of serious awareness as organised tax avoidance through CSR has "real consequences" on returns to society. This result is consistent with the current study's conjecture that in order for corporations to engage in tax avoidance, CSR decoupling must present.

For employee CSR decoupling and environmental CSR decoupling, the regression coefficient results in Table 4.4 and Table 4.5 show that both are positive and significantly associated with CETR. Accordingly, the higher the CSR decoupling, the higher the CETR, the lower the tax avoidance. Higher CETR indicates lower likelihood that corporations avoid tax, which do not support H1b and H1c. The findings are inconsistent with Laguir et al. (2015) who find negative relationship between employees related CSR with CETR and no significant relationship between environmental related CSR with CETR. These results are also inconsistent with the current study's conjecture that in order for corporations to engage in tax avoidance, CSR decoupling must present if corporations view tax avoidance as immoral. In fact, this result indicates that when it comes to employee related affairs and environmental related issues, corporations do not exaggerate through CSR decoupling when they avoid tax.

Based on the results, to avoid tax, corporations exaggerate in community CSR but not employee CSR nor environmental CSR. One possible reason for this could be that throughout the years under examination, it is observed that CSR activities of Malaysian corporations almost all disclose at least donations and corporate giving to charity in minimal disclosure events, whereby omission of employee or environmental issues is possible. This concentration of community CSR disclosure among Malaysian corporations that potentially leads to exaggeration in community CSR may be explained by the Malaysian tax system that provides preferential treatment to charitable donations through deductions, on top of the Malaysian business culture that is known to be fatalism in nature (Gorrill, 2009; Warburton, 2021; Kwintessential, 2021). For example, Gorill

(2009; page 2) states fatalism as one of the Malaysian culture where the author elaborate fatalism in Malaysia as follows.

> *"Malaysian culture is centred on the diverse religious values of Hinduism, Buddhism, and Islam and as such relies heavily on the concept of fatalism. Fatalism is the belief that success, failures, opportunities and misfortunes result from fate or the will of God. In a business context, when formulating ideas and making decisions Malays, who are predominantly Muslim, will tend not to rely on empirical evidence or hard facts, but prefer to be guided by subjective feelings combined with the Islamic faith. Your Chinese and Indian colleagues will also take a similar approach since feelings and emotions play a significant part in their business culture."*

Overall, the results evident that different nature of CSR activities affects tax avoidance differently.

4.3.2 Empirical Result of the Influence of Trust in the Government in the Relationship between CSR and Tax Avoidance

This section presents findings in response to the second research question of the current study, does trust in the government influence the relationship between CSR decoupling and tax avoidance? The objective is to investigate if trust in the government influences the relationship between CSR decoupling and tax avoidance. It is important to reiterate that the main concern in moderation analysis is the interaction terms between all independent and moderating variable trust (in Table 4.3 and Table 4.4, refer to variables CSRDECOUP_TRUST, CommCSRDECOUP_TRUST, EmpCSRDECOUP_TRUST, EnvCSRDECOUP_TRUST) rather than the individual term of moderating variable (TRUST) in the model (Brambor et. al., 2006). The analysis focuses on coefficient of the interaction terms “since the individual term[s] is [are] not the main concern” (Law, 2018; page 192), although individual terms may or may not be significant (Memon et al., 2019).

4.3.2.1 Overall CSR

This subsection explains results of the overall CSR with trust in the government as moderating variable in the linkage between CSR and tax avoidance. The result in Table 4.3 shows that overall CSR-trust interaction term is found to be negatively related to tax avoidance but insignificant relation, which does not support H2. This result is inconsistent with the current study’s conjecture that with trust corporations see tax payment as part of being socially responsible, hence they will not engage in tax avoidance. In fact, the result indicates that trust in the government does not has indirect influence on the relationship between CSR and tax. This finding is inconsistent with prior studies that prove trust affects business tax behaviour in Malaysia (Faizal et al., 2017; Chong and Arunachalam, 2018). Possible reason for the insignificant result of the influence of trust in the relationship between CSR and tax avoidance is mainly going back to the square reason of business motivation which is profit-centred. It is anticipated that corporations pay tax because they are bound by the law and avoiding tax because they could enjoy more profit. Hence, trust in the government does not have a say in their tax decision. In agreement, since trust in the government is synonym with voluntary act to comply with tax (Faizal et al., 2017; Kirchler, 2007), understanding voluntary behaviour from tax perspective is to some extent a “fruitless exercise” (Hasseldine and Morris, 2013; 12) as imposition of tax in itself is by statute. Another possible reason that trust do not influence the morality of tax behaviour could be the deterrence factor (Heinemann, 2011; Mickiewicz et al., 2019) as explained in previous chapter 2. For example, with or without trust, corporations may still pay tax to avoid severe penalty. Overall, the result shows that trust in the government does not affect overall issues on CSR and tax decision at corporate level.

4.3.2.2 Community CSR, Employee CSR and Environmental CSR

This subsection explains results of different dimensions of CSR with trust in the government as moderating variable in the linkage between CSR and tax avoidance. Based on the result shown in Table 4.4, community-trust and employee-trust interaction terms show insignificant coefficient, which do not support H2a and H2b. The results are inconsistent with the current study's conjectures that as regards community and employee related matters, with trust in the government, corporations do not engage in tax avoidance and view it as immoral. In fact, the results show that trust in the government does not affect issues on community related CSR and employee related CSR as well as tax decision at corporate level. Meanwhile, the result shows that only environmental-trust interaction term is significantly related to CETR with negative correlation (-2.5994) showing indirect effect on the main relationship, however it does not support H2c because it weakens the positive relationship between environmental CSR decoupling and CETR. The result confirms that trust in the government weakens the positive relationship with -2.5994 EnvCSRDECOUP_TRUST additional to -0.1172 TRUST coefficient value, by the increase of 1 in EnvCSRDECOUP. In other words, trust in the government causes lower CETR and hence lower environmental CSR decoupling. Lower CETR indicates higher tax avoidance. This result is inconsistent with the current study's conjecture that as regards environmental related issue, with trust corporations see tax payment as part of being socially responsible, hence they do not engage in tax avoidance. In actual fact, the result proves that even with trust, corporations continue to avoid tax but engage less in environmental CSR decoupling.

The results show that by presence of trust in the government, corporations engage more in tax avoidance but exaggerate less through CSR disclosure in environmental related issue, leaving credence to the earlier finding that CSR and tax decision at corporate level may not be related. The findings are found significant for environmental related issue as compared to community and employee related issue highly likely due to listed corporations in Bursa Malaysia that are selected as sample for the current study mainly comprised of sectors that are highly associated with natural environment and resources such as construction; energy; industrial products and services; plantation; transportation and logistics; utilities providing gas, water, electricity; among others. Hence, the finding is expected when these corporations choose to exaggerate more through environmental CSR. Overall, trust in the government does not affect overall CSR and tax decision, but selected CSR affair such as environmental issue does provides evidence that trust in the government matters although the result suggests that even with trust in the government corporations avoid tax but engage less in exaggeration through CSR disclosure.

4.3.3 Empirical Result of the Influence of Regulation in the Relationship between CSR and Tax Avoidance

This section presents findings in response to the third research question of the current study, does regulation influence the relationship between CSR decoupling and tax avoidance? The objective is to investigate if regulation moderates the relationship between CSR decoupling and tax avoidance. It is important to reiterate that the main concern in moderation analysis is the interaction terms between all independent and moderating variable trust (in Table 4.3 and Table 4.5, refer to variables CSRDECOUP_REG, CommCSRDECOUP_REG, EmpCSRDECOUP_REG, EnvCSRDECOUP_REG) rather than the individual term of moderating variable (REG) in the model (Brambor et. al., 2006). The analysis focuses on coefficient of the interaction terms "since the individual term[s] is [are] not the main concern" (Law, 2018; 192), although individual terms may or may not be significant (Memon et al., 2019).

4.3.3.1 Overall CSR

This subsection explains results of the overall CSR with regulation as moderating variable in the linkage between CSR and tax avoidance. The result in Table 4.3 shows that overall CSR-regulation interaction term is negatively and significantly associated with CETR, however, it does not support H3 because it weakens the positive relationship between CSR decoupling and CETR. The result confirms that regulation has significant indirect effect and that it weakens the positive relationship between CSR decoupling and CETR (with -0.4048 CSRDECOUP_REG additional to -0.0281 REG coefficient value by the increase of 1 in CSRDECOUP). Regulation lowers the CETR and hence lower the CSR decoupling. Lower CETR indicates higher tax avoidance. This result is inconsistent with the current study's conjecture that with presence of regulation corporations do not commit tax avoidance that is risky to their legitimacy for fear of regulatory punishments. In actual fact, the result proves that even with regulation, corporations continue to avoid tax but engage less in CSR decoupling. This finding also support the earlier finding that CSR and tax may not be related at corporate level, where regulation do not constraint the practice of tax avoidance and that it does not encourage exaggeration in CSR disclosure. The finding may also suggests that enforcement of law in Malaysia may not suffice to encourage tax compliance by statute. In agreement, Mohdali et al. (2014) studied the impact of threat of punishment on tax attitude in Malaysia reveal that rather than preventing tax avoidance attitude, punishment of tax non-compliance through regulation "may only encourage them to be less compliant which might indicate their rebellious attitude against the government" (Mohdali et al., 2014, page 295; Loo, 2006; Loo et. al., 2009).

4.3.3.2 Community CSR, Employee CSR and Environmental CSR

This subsection explains results of different dimensions of CSR with regulation as moderating variable in the linkage between CSR and tax avoidance. The results in Table 4.5 show that all community-regulation, employee-regulation and environmental-regulation interaction terms have insignificant indirect effect on the main relationship, which do not support H3a, H3b and H3c. The results are inconsistent with the current study's conjectures that as regards community, employee and environmental related matters, regulation is expected to weaken the relationship between CSR decoupling and tax avoidance. In fact, the results indicate that regulation indirectly has no influence on the decisions of corporations in different CSR issues and tax affairs. In spite of this finding, it is important to highlight that overall CSR decision does provides evidence that regulation matters at corporate level decisions of CSR and tax although the result confirms that it does not support the hypothesis.

4.4 Conclusion

This chapter presents and discusses the results of descriptive statistics, correlation and regressions of fixed effect and random effect. STATA is used to perform the tests. The current study intends to meet three main objectives in the area of study of the linkage between CSR and tax avoidance, which are to test the relationship between CSR and tax avoidance; to test if trust in the government moderates the relationship of CSR and tax avoidance; and to test if regulation moderates the relationship of CSR and tax avoidance. Pertaining to the first objective, finding of the current study reveals that CSR decoupling is positive and significantly associated with CETR. The finding of the current study suggests that corporations who exaggerate more in CSR disclosure engage less in tax avoidance indicating that overall CSR and tax strategy at corporate level may not be related. The finding also provides evidence that overall, corporations do not view tax avoidance as immoral. Furthermore, the result reveals that community CSR decoupling is negative and significantly associated with CETR, while employee CSR decoupling and environmental CSR decoupling are both positive and significantly associated with CETR. This finding proves that when it comes to community related issues, corporations who exaggerate more in CSR disclosure, engage more in tax avoidance. However, when it comes to employee related affairs and environmental related issues, corporations do not exaggerate through CSR decoupling when they avoid tax.

Pertaining to the second objective, finding of the current study reveals that overall CSR-trust interaction term is found to be insignificantly related to tax avoidance. The result indicates that trust in the government does not has indirect influence on the relationship between CSR and tax avoidance. Environmental-trust interaction term is significantly related to CETR with negative correlation, however, community-trust and employee-trust interaction terms show insignificant coefficient. The results show that trust in the government does not affect issues on community related CSR and employee related CSR as well as tax decision at corporate level. The result proves that even with trust, corporations continue to avoid tax but engage less in environmental CSR decoupling. Pertaining to the third main objective, finding of the current study reveals that overall CSR-regulation interaction term is negatively and significantly associated with CETR. The result proves that even with regulation, corporations continue to avoid tax but engage less in CSR decoupling. On the other hand, all community-regulation, employee-regulation and environmental-regulation interaction terms have insignificant indirect effect on the main relationship, indicating that regulation indirectly has no influence on the decisions of corporations in different CSR issues and tax affairs.

CHAPTER 5: DISCUSSION AND CONCLUSION

5.0 Introduction

The current study is motivated by the curiosity to understand how CSR and tax is connected at corporate level. This chapter presents conclusion for the findings to the three main objectives of the current study. The current study initiated three main research questions to be addressed including first, to understand the linkage of CSR and tax avoidance by incorporating CSR decoupling concept to measure CSR; second, to understand the role of trust in the government on the said linkage; and third, to understand the role of regulation on the linkage between CSR and tax avoidance. This chapter is organised into a few main sections including the overall conclusion on the linkage between CSR and tax avoidance; conclusion on the role of trust in the government in the linkage between CSR and tax avoidance; conclusion on the role of regulation in the linkage between CSR and tax avoidance; implication of research findings; and lastly is the section that discusses limitations and recommendations for future research.

5.1 Linkage of CSR and Tax Avoidance

This subsection focuses on overall conclusion and discussion of the relationship between CSR and tax avoidance. Whilst the debate on whether CSR and tax are related at corporate level endures with various empirical findings and opinions leaving the debate to no consensus, the main idea behind the debate has been the similar feature of morality carried by CSR and tax that both strategies often are deemed as representation of corporate ethical behaviour. However, acting morally is subject to different interpretations that gives rise to different view on what constitute moral act including the intention to act morally, giving rise to the idea of distinction between the letter of law and the spirit of law (Sikka, 2010; Hasseldine and Morris, 2013; Sikka, 2013). Past studies have proved that CSR and tax avoidance is positively related where CSR is used as mechanism for concealing unethical behaviour of tax avoidance (Davis et al, 2016; Lanis and Richardson, 2013; Col and Patel, 2019; Mao, 2019; Zeng, 2019); negatively related where corporations honouring tax payment and view tax payment the same way they view CSR (Lanis and Richardson, 2012; 2015; Zeng, 2016) and no relation (positively related) where engaging in CSR for public reputation and committing tax avoidance to minimize operational cost are both possible strategies to maximize shareholders' value (Davis et al., 2013; Landry et al., 2013; Vacca et al., 2020). Leveraging mostly on CSR performance as measurement of their CSR, the main objective of prior studies has been so far on the intention of engaging in CSR by corporations whether corporations are doing CSR in good faith or otherwise case, hence establishes a connection with tax avoidance as indicator to understand this intention of CSR engagement.

However, the main finding of the current study evident that CSR and tax are not related at corporate level. Using the concept adopted from CSR decoupling area of study, CSR is measured using CSR decoupling to incorporate the intention to exaggerate through CSR in the framework with the main objective of understanding corporate view on tax avoidance, whether corporations view tax avoidance as immoral act. Most past studies in the area of linkage of CSR and tax avoidance have been relying on a huge assumption that corporations view tax avoidance as immoral but very few prove it as in the study by Davis et al. (2013). The findings of the current study provide new evidence to the literature that overall, CSR and tax are not related because corporations who exaggerate more in CSR disclosure engage less in tax avoidance. Had CSR and tax related for sharing similar morality feature, corporations would have exaggerate through CSR disclosure to commit tax avoidance, but this is not the case of the findings. The finding implies that corporations actually do not view avoiding tax as immoral, hence decision to avoid tax is done without having to exaggerate through CSR for any so called need to conceal the immoral behaviour of tax avoidance practice. Overall, the findings suggest that future research should not relate CSR and tax at corporate level.

As regards different dimensions of CSR, the findings prove that only community CSR is related to tax avoidance whilst employee and environmental related issues carry no difference from overall CSR that they are not related to tax avoidance. In the current study, community related issues of CSR comprises of community development, philanthropy, product, human rights and supply chain. For example, charitable giving, donations of goods, volunteerism of staff time, produce or market goods and services that enhance health and quality of life for consumers, product safety and quality, corporation's commitment to respecting fundamental human rights conventions, etc. The finding provides new evidence that corporations incline to use community related CSR to exaggerate when they decide to engage in tax avoidance. The inclination for community CSR suggests that corporations believe that by disclosing more responsibility that shows direct contribution to community, they will be noticed and perceived by society as acting responsibly hence assisting them to disguise their corporate immorality of avoiding tax. Furthermore, in Malaysia, corporations tend to disclose their CSR more heavily in community related issue as compared to the other CSR issues. For example, there are cases where only community related issue is present in minimal disclosure event. This concentration of community CSR, either motivated by tax incentives offered by the government or religious belief, is proven to affect tax related decision at corporate level. Overall, except for community, other dimensions of CSR are not related to tax avoidance. In agreement, Mohandas et al. (2019) also find no relationship between CSR and tax in Malaysia supporting the findings of the current study, although the authors use different measurement of CSR.

The overall findings are inconsistent with neo-institutional theory, which suggests that corporations with higher CSR decoupling engage more in tax avoidance. Through improved CSR reporting, corporations are supposedly conform to institutionalized ceremonial rules of a corporate culture that promises ethical conduct to external audiences and at the same time being efficient in managing costs through avoiding tax, explaining the decoupling device proposed by Meyer and Rowan (1977), however, the findings prove that corporations who exaggerate more in CSR disclosure engage less in tax avoidance. While overall findings show inconsistency to theory, nevertheless, the findings prove that tax avoidance depends on community-related CSR. When the analysis tested CSR in different dimensions, the finding supports the theory, defending the idea that dimensions of CSR should not be consolidated into a single metric since this approach eliminates important and informative information. The findings lend credence to the belief that the relationship between CSR and tax is not limited solely on the morality feature, but more than that. Decision of CSR and tax at corporate level may be driven by other factors than mere contribution to society. One of the factors is corporate reputation. For example, Hasseldine and Morris (2013; page 9) state that "*For the last several years, qualitative research methods have also been used to study corporate tax avoidance…and have even been commissioned by tax agencies themselves…The respondents of most studies stress the importance of corporate reputation, suggesting that the CSR and tax relationship is more complex than simple hyperbole or 'organised hypocrisy'*." Another factor is the duty of directors to act however they think fit for the benefit of all stakeholders including the apparent interest of employees, shareholders and society. Strategies involving tax at corporate level is often associated with the lack of appreciation on the duties of directors that are often perceived as deceitful such that they enjoy more profits by avoiding tax, etc. However, the decision of tax and CSR could be taken independently beyond sole morale subject to fit the interests of the aforementioned stakeholders. For example, doing CSR to contribute to society while engaging in tax avoidance to manage cost for higher profit to give back to employees and corporate reputation are possible.

Accordingly, Hasseldine and Morris (2013; page 11) state that *"…another aspect that be considered relevant to the debate regarding tax avoidance and CSR is that directors have no obligation, legal or even moral, to select the event (out of a choice of more than one) under which their company will pay a maximum amount of tax and, importantly, that democratic societies do not insist that they do make such a choice.*". This implies that the rights of corporations to act as individual to pay tax and at the same time contribute to society through CSR, regardless of the intention. Hasseldine and Morris (2013; page 12) also state *"We would suggest that there is nothing beyond the tax code. There is no need for a distinction between the 'letter' of the law and the 'spirit' of the law because there is no need to look any further than the actual legislation. It is almost certain that to look for an 'intention' that lies beyond what is to be found in the enacted tax code is a fruitless exercise. This position is elegantly expressed in the words of Hoffman (2005): 'The only way in which [the lawmaker] can express an intention to impose a tax is by statute, which means that such a tax is imposed. If that is what [the lawmaker] means, the courts should be trusted to give effect to its intention'.*" In a nutshell, decision of CSR and tax at corporate level works independently, hence they are not related.

5.2 Role of Trust in the Government in the Linkage of CSR and Tax Avoidance

This subsection focuses on overall discussion and conclusion on the role of trust in the government in the relationship between CSR and tax avoidance. When it comes to trust in the government, the direct effect is expected on the tax avoidance, not the CSR disclosure. One may anticipate that stronger trust in the government will ensure compliance in tax rules either by voluntary or law enforcement (Wahl et al., 2010; Muehlbacher et al., 2011; Kogler et al., 2013; Faizal et al., 2017), hence corporations are expected to engage less in tax avoidance practice. In the case of the current study, less engagement in tax avoidance should lead to less exaggeration act through CSR disclosure because there is lesser need for corporations to disguise the immoral act of avoiding tax via improved CSR disclosure. However, the finding suggests that trust in the government does not indirectly affect overall issues on CSR and tax decision at corporate level with the insignificant results. Similar to overall CSR, except for environmental issue, trust in the government does not affect the relationship of other CSR issues with tax avoidance. However, for environmental related issue of CSR, the finding suggests that with trust in the government, corporations engage more in tax avoidance but exaggerate less through environmental CSR disclosure, providing support to the earlier finding above that CSR and tax decision at corporate level may not be related. The findings of the current study are inconsistent with neo-institutional theory. The theory suggests that corporations who have positive assessment on the government will highly likely cooperate with the government by paying tax, leading to similar set of corporate structure (out of pressure) to follow tax rules, where avoiding tax in strong trust environment is immoral. Undermined authority (or distrust) in the government leads to non-compliance including avoiding tax, where corporations no longer see paying tax as part of being socially responsible. However, the findings reveal that trust in the government does not have indirect influence on the relationship between CSR and tax avoidance. Even though different dimension of CSR such as environmental issue has shown significant relationship with tax avoidance, the finding proves that even with trust, corporations continue to avoid tax but engage less in environmental CSR decoupling, which is also inconsistent with the theory.

There are two main findings in regards to trust in the government. The first main finding proves that CSR and tax are not related where presence of trust in the government in fact increases tax avoidance practices but at the same time corporations engage less in

CSR decoupling. Acting moral by engaging in less CSR decoupling whilst acting immoral by engaging more in tax avoidance are paradoxical movement if measured by morality feature alone. Thus, this finding prove that CSR and tax at corporate level are independent strategies of each other that may be driven by other factors than mere ethical issue as explained in the previous section. The second main finding is that trust in the government does not discourage tax avoidance practice. This finding suggests that stronger trust in the government does not necessarily promote ethical behaviour particularly lesser engagement in tax avoidance. This finding is inconsistent with past studies in Malaysia such as Faizal et al. (2017) and Chong and Arunachalam (2018) highly likely for the reason that the focal of these studies had been on determinants of tax compliance rather than moral issue on tax. Whilst there could be other factors that drive the findings of the current study, for example business culture of maximizing profit where corporate directors often demand more profits for better incentives or perhaps the deterrence factor such as law enforcement that highly likely lead to undermined value of trust in the government and its effect on tax avoidance, one thing that is apparent is that trust in the government influences compliance to tax rules, but not tax morale.

5.3 Role of Regulation in the Linkage of CSR and Tax Avoidance

This subsection focuses on the overall discussion and conclusion of the role of regulation in the relationship between CSR and tax avoidance. Theoretically regulation is expected to reduce tax avoidance practice. Scott (2014; page 62, 63) states that "*The institutional logic underlying the regulatory pillar is an instrumental one: individuals conform to laws and rules because they seek the attendant rewards or wish to avoid sanctions*." Chong and Arunachalam (2018; page 155) who focus their study in Malaysian economic context states that "*There are differing views regarding the impact of morale and attitude on tax compliance…while tax morale influences tax compliance decisions, tax enforcement is* *the primary driver of compliance. Enforced compliance caused by a larger penalty or a greater probability of detection leads to a reduction in tax evasion.*" In the case of the current study, regulation is also expected to discourage tax avoidance, leading to less exaggeration act through CSR disclosure because there is lesser need for corporations to disguise the immoral act of avoiding tax via improved CSR disclosure. However, the results prove that regulation has indirect influence on the relationship between overall CSR and tax avoidance, although it does not affect the relationship of different dimensions of CSR to tax avoidance. The findings of the current study are inconsistent with neo-institutional theory. The theory suggests that for fear of regulatory punishments, corporations will avoid tax avoidance practice that is risky to their legitimacy, with the view that corporations are bound to coercive isomorphism in securing their legitimacy. With imposition of regulation, it is fair to assume that corporations will avoid tax avoidance for fear of regulatory punishment should they violate the law. However, the findings reveal that even with regulation, corporations continue to avoid tax but engage less in CSR decoupling. Besides that, all different dimensions of CSR also have no influence on tax avoidance.

The finding proves that overall, with the presence of regulation, corporations continue to avoid tax but engage less in CSR decoupling. Again, this paradox between moral and immoral act supports the above earlier findings that CSR and tax may not be related at corporate level because regulation actually increases tax avoidance practices but at the same time corporations engage less in CSR decoupling. In the perspective of morality, this situation demonstrates misalignment of moral action. The finding lends credence to the argument that the relationship of CSR and tax is not limited solely on the morality feature but more than that. Again, this finding prove that CSR and tax decisions at corporate level are independent of each other that may be driven by other factors than ethical issue alone as explained in the previous section. Another finding to highlight is that imposition of regulation does not deter corporate practice of tax avoidance, at least in Malaysia corporate case. This finding is consistent with prior studies in Malaysian context where regulation sanction is proven ineffective in acting as deterrence factor to tax non-compliance (Mohdali et al., 2014; Loo, 2006; Loo et. al., 2009). The finding may suggests that enforcement of law in Malaysia may not suffice to discourage tax avoidance by statute. Future research should focus on power of authorities and law enforcement in regards to regulation to better understand tax behaviour. Accordingly, Chong and Arunachalam (2018; page 151) states that "*If trust in authorities is low and the power of authorities is weak, it is likely that citizens seek to maximize their individual outcomes by evading taxes, bringing compliance to a minimum (Kirchler et al., 2008)*". Overall, CSR and tax are not related at corporate level.

5.4 Implication of Research Finding

This subsection discusses the implication of research finding. A group of researcher in the area of linkage between CSR and tax avoidance argue that CSR and tax establish a connection with each other to an extent, particularly in their moral feature (Sikka, 2010; Hasseldine and Morris, 2013; Sikka, 2013, Whait et al., 2018). This argument of connection between CSR and tax avoidance at corporate level has given rise to increasing (although is limited) empirical research to date to investigate the linkage of CSR and tax. The idea that starts with a debate on conflicting ethical behaviour of corporations when corporations are deemed to have honoured tax payment in the event where they involve actively in CSR to walk their talk, has resulted in inconclusive empirical findings afterwards. All in all, these empirical findings concludes that CSR and tax avoidance are related with the view that corporations are using CSR as a strategy to conceal their immoral behaviour or hedging against unfavourable events, while on the other side of the coin, other finding suggests that corporations actually honour tax payment and view tax payment the same way they view CSR. The finding of the current study however prove otherwise when CSR and tax do not seem to be related at corporate level. In light of this finding, the following implications are offered.

First, future research in academic should put an end to the argument that CSR and tax are related at corporate level. Although to a certain extent CSR and tax are related particularly from the perspective of ethical issue, however, decision on CSR and tax as a whole at corporate level are more complex than the subject of moral alone. While prior studies have focused on overall assessment of CSR on tax avoidance, the judgment however mostly compares moral and immoral act with overall CSR performance and avoiding tax as the basis of judgment. Only a few studies on the area, for example Hoi et al. (2013) focus on both immoral act with irresponsible CSR and tax avoidance to make judgement. In the study, the authors highlight the reasons to measure CSR on immoral perspective using irresponsible CSR, amongst others, this reason is legit where it goes "*We specifically focus on irresponsible CSR activities because…and (3) existing empirical evidence suggests that irresponsible CSR activities have explanatory power regarding the underlying CSR construct they intend to capture (Chatterji et al. 2009; Goss and Roberts 2011) while responsible CSR activities are too self-serving and tainted to provide such information (Neu et al. 1998; Cho and Paton 2007)*." (Hoi et al., 2013; page 7). Similarly, leveraging on the measurement of CSR using CSR decoupling, the current study also focuses on both immoral perspectives of deliberate improved CSR disclosure and deceitful act via tax avoidance to make final judgment. Not only does it provides an apple to apple comparison, the framework incorporates the intention to exaggerate as part of the investigation and produces improved finding on the implied corporate view of tax avoidance from moral perspective. Although the finding concludes the argument in the area of study that overall CSR and tax are not related, however, community related CSR decoupling affects tax avoidance, hence future researchers could further explore this measurement in a different economic setting to investigate its impact in different setting.

Second, corporations should address clearly part of tax issue that relates to ethics in their sustainability voluntary disclosure. Although the finding of the current study suggest that overall CSR and tax are not related, the argument surrounding the linkage of CSR and tax avoidance has been on the tax morale issue, particularly where corporations by right should not engage in tax avoidance in the event where they contribute to society through CSR. If corporations can be more transparent in their tax matter especially in their voluntary disclosure, they could start an effort to reduce public speculation on their moral behaviour. A group of researchers argue that tax should be part of CSR (Sikka, 2010; Sikka, 2013; Jenkins and Newell, 2013; Preuss, 2010; Davis et al., 2013) for their same feature of morality. For example, Preuss (2010) proves that even large corporations in developed economy like the United States, taxation issue is not even present in any code of conduct of the selected sample size except for only two corporations, however with a vague remark on their taxation matter, not to mention corporations in developing economy like Malaysia. Although this group of researcher emphasis the pressure of getting tax as part of CSR that deserve a voluntary disclosure, the current study suggests that the disclosure on tax transparency especially on tax morale should be made out to public regardless. The idea is that it does not necessarily have to be part of CSR to make explicit statement on tax morale in their financial annual report because CSR and tax decisions are independent at corporate level that both are surrounded by more than mere ethical issue.

Third, the findings suggest that the government should re-evaluate its efficacy and existing human resource capability in managing resources for the benefit of citizen. Corporations do not view paying tax as part of being socially responsible lending credence to the claim by McGee (2010) on the issue of the lack of efficiency on the part of the government in managing country's resources to a stage where majority of corporations are seeing the action to lobby for lower corporate tax as a way of enhancing social welfare (Davis et al, 2013). McGee (2010) claims that payment of lesser tax will increase cash flow of corporations keeping the resources managed by them because private sector corporations are more efficient in allocating resources best for society than public sector organization in handling such cases. Djankov et al. (2010) and Davis et al. (2016) agree with a view that tax payment adversely impact society in the sense that it impairs innovation, job growth and economic development especially in the context of investment and entrepreneurship. This view on the government's efficiency has been highlighted by these past studies in developed setting, indicating that it is not entirely new to literature. Perhaps, Malaysian government too should take proactive steps ahead to fix the current unfavourable corporate view on the government through better transparency on how the resources are handled. By then perhaps the trust in the government not only in acting truthfully to avoid conflict of interest but also in efficiency in managing resources could be restored. Besides that, the government should re-evaluate its power on law enforcement in relation to tax because the finding suggest that regulation sanction does not seem to deter tax avoidance practice among corporations.

5.5 Limitations and Recommendations for Future Research

This subsection discusses the limitations and recommendations for future research. Similar to other studies, the current study is not free from limitations. First, the current study uses survey score from WVS database to measure its moderating variable trust in the government where the weighted average score of trust represents the trust for all corporations. It this case, the variable trust in the government varies by time but constant for all corporations, hence may not represent actual trust that could differ from one corporations to another. Future studies should focus on measurement of trust in the government using method such as interview or survey questionnaire to targeted audience, in this case is the managerial group.

Second, the current study measure regulation using dummy variable that denotes prior to and post imposition of regulation. Similar to trust, the variable regulation varies by time but constant for all corporations. Hence, the measurement may not represent actual regulation effect that could differ from one corporations to another. The effect however may be different if regulation is measured using actual case of participation of corporations in the tax avoidance regulation through interview or survey questionnaire, by which future studies could further. Third, sample size of the current study is rather small due to the limitation of fully rated sample of Malaysian corporations by CSRHub. Future studies could further explore their investigation in other settings.

5.6 Conclusion

The current study is driven by a desire to better understand the relationship between CSR and taxation at the corporate level. The current study set out to address three primary research questions: first, to understand the relationship between CSR and tax avoidance by incorporating the CSR decoupling concept into the measurement of CSR; second, to understand the role of trust in the governmen in the said relationship; and third, to understand the role of regulation in the relationship between CSR and tax avoidance. The findings reveal that overall CSR and tax at corporate level is more than sole connection of the perceived similar feature of morality. There are many factors that could have driven both strategies independently, hence relating the decision of CSR and tax at corporate level may not be feasible. Although the finding concludes the argument that overall CSR and tax are not related, however, community related CSR decoupling affects tax avoidance, giving way for future exploration. Furthermore, trust in the government does not have indirect influence on the relationship between CSR and tax avoidance. Although environmental related CSR shows direct influence on the relationship, it proves too that CSR and tax are not related. In addition, the findings reveal that even with regulation, corporations continue to avoid tax but engage less in CSR decoupling, supporting the earlier evidence that CSR and tax are not related.

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