



# Chapter 5

## The Relationship Between Corporate Social Responsibility and Tax Avoidance: The Moderating Role of Directors With Experience Abroad in France

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### ABSTRACT

*This chapter highlights the impact of CSR on the tax avoidance of French firms, as well as the moderating role of directors with experience abroad on this relationship. On a sample of 55 listed French firms during the period 2007 to 2016, the authors perform the generalized least square method to correct the problems of heteroscedasticity and autocorrelation. They find that socially responsible firms refrain from making tax avoidance strategies, but argue that directors with foreign experience take advantage of the reputation of socially responsible firms as a hedge to help them optimize their tax avoidance strategy.*

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## **1. INTRODUCTION**

Tax, whether direct or indirect, occupies an important place in public revenue. In this framework, tax revenue is seen as a means of justice and the expansion of infrastructure that supports market development. But taxpayers tend to minimize the amount of tax paid to the government legally or illegally. Indeed, tax is considered as a major cost for the firm because it reduces free cash flow for the company as well as for the shareholder (Zahoor et al, 2023). According to the Corporate Europe Observatory report in 2018, between 50 and 70 billion euros are lost each year in the European Union due to tax avoidance practices. These attitudes constitute an obstacle to the financing of public services but are also a source of social inequalities. Thus, the Directorate General Taxation and Customs Union (DG TAXUD), whose objective is to manage tax policy within the European Union, has stimulated reflection on taxation as a key to corporate social responsibility. However, in recent years, many scandals have affected large firms that claim to be leaders in corporate social responsibility. This corporate behavior has sparked a demand for transparency from stakeholders to determine whether firms in low-tax jurisdictions operate ethically. Within this framework, ethical performance is the foundation of corporate social responsibility, which is a complex combination of social obligations that firms accept as part of good corporate citizens. There is an ongoing debate over the definition of tax avoidance and whether it falls under CSR (Hanlon and Heitzman 2010). On the other hand, previous research has shown contradictory results regarding the relationship between CSR and tax evasion (Lanis and Richardson, 2012; Landry et al, 2013).

Our study adds to the literature at this level and provides some answers on the nature of the relationship between corporate social responsibility and tax avoidance practices. We examine this relationship further by highlighting the moderating role of directors with foreign experience. To do this, we conducted our study on a sample of 55 French firms belonging to the SBF 120 index during the period from 2007 to 2016.

The results of the regressions by MCG show that socially responsible firms refrain from making tax avoidance strategies supporting the idea that a socially responsible company tries to meet the needs of all the stakeholders to which it is linked and not only serve the interests of its shareholders.

On the other hand, our results show that directors with experience abroad reduce tax avoidance strategies, suggesting that this type of director participates in improving corporate governance in the leading to a reduction in its tax avoidance practices.

On the other hand, the results relating to the moderating role of this type of directors on the relationship between corporate social responsibility and tax avoidance are contrary to our expectations. Indeed, the coefficient of the moderating variable is positive. This result suggests that in socially responsible firms, directors with

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