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Study Regarding Fiscal Policy – Corporative Social Responsibility Correlation

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Abstract. *In the context of globalization, the lack of stability of the production factors raises a public issue regarding the corporation's implications in social responsibility actions. Thus, the fiscal policy promoted by corporations can and will influence corporate social responsibility actions and the fiscal aggression can be considered socially irresponsible, through costs associated to fiscal obligations non-payments. Starting from different controversies about the correlation fiscal policy-corporative social responsibility, regarded both from the corporation or state point of view, the authors are trying to formulate their own opinion about this correlation upon a Romanian sample.*

Keywords: fiscal policy; corporate social responsibility; fiscal aggressiveness; corporation.

JEL Codes: D22, H26, K34, M14.
REL Codes: 9B, 11Z.

1. Introduction

Corporate social responsibility has been approached in many ways, from which we mention the author's Holme and Watts (2006) that have stated that the corporate social responsibility is a business's continues engagement to act ethically and contribute to the economical development by improving, at the same time, its employee's and their family life quality, as well as the local community and society, in general. The European Community Commission (2001) has formulated another opinion according to which the corporate social responsibility is an concept through which companies are deciding whether they will contribute or not to a better society and a cleaner environment, by integrating social and environmental preoccupations in their business and stakeholder's interaction. The general goal of corporate social responsibility is to create higher life standards for both inside and outside stakeholders (shareholders and potential investors, managers, employees, clients, suppliers and other business partners, environment as well as national and international authorities) and, at the same time, maintaining the corporation's profitability.

Although, corporate social responsibility is not perceived as an influence factor upon fiscal policy, fiscal obligations are obligatory payments levied upon a company revenues and/or wealth and from which are beneficiating the persons that have not a direct economical, financial and social interest with the companies involved in paying these fiscal obligations (non-shareholder and non-employees).

In recent years, the corporate social responsibility as well as the fiscal policy, the fiscal aggression and their correlation have been on the researchers agendas (Avi-Yonah, 2009, Desai, Dharmapala, 2006, Williams, 2007, Frank et al., 2009, Lanis, Richardson, 2011, Watson, 2011).

In a recent study Lanis and Richardson (2011) suggest that corporate social responsibility is an important influence factor upon a corporation fiscal aggressive behaviour through its administration board. The two authors are stating that independent directors (the ones that are not part of the administration board) are more receptive to the company's needs and so they will try to influence the administration board decisions through aggressive fiscal policies.

Empirical researches (Frank et al., 2009) are defining fiscal aggression as a specific administration method of the imposable profit with the aim of reducing the profit tax calculation base. The fiscal aggression is combining legal and less legal fiscal planning activities. Furthermore in the international literature the fiscal aggression is often referred to as fiscal evasion.

In other studies (Watson, 2011) the term "fiscal aggression" is used with the sense of "fiscal avoidance", in order to underline the strategy followed by the company, through fiscal avoidance the author understanding the general relationship between revenues and taxes that includes a larger spectrum of carefully fiscal planning strategies from the usual, perfect legal, ones to the less legal and more aggressive activities. The fiscal aggressiveness is defined as a form of fiscal avoidance that includes various transactions with the aim of reducing the owed profit tax. In analysing the fiscal aggressiveness, the author is especially interested in the barely legal fiscal avoidance strategies, because these are the most aggressive and risky ones, as compared with the omnipresent and low risk ones.

In a larger context we can appreciate that the fiscal policy promoted by a company as regard to its profit tax can and will influence its corporate social responsibility actions and by this the general society, and the fiscal aggressiveness can be considered socially irresponsible through costs associated with lower fiscal payments to the state budget. There are different points of view as regard to how can a company involve itself in corporate social responsibility actions. For example, Watts and Zimmerman (1990) are suggesting that the corporative social responsibility is a non-legitimate manager's attempt to impose shareholders revenues without their consent, which leads to a managers behaviour that is not understood by the shareholders.

2. Aspects regarding the dilemma corporation – corporative social responsibility actions – fiscal policy

International studies show that taking into consideration taxes and contributions major impact upon a corporation's activity, advocates for social responsibility are preoccupied by the fiscal policy trend in taxing companies (Desai, Dharmapala, 2006). Thus, in USA, according to the fiscal authority, were in 2002 collected 153.6 billion USD as taxes from corporation while the fiscal deductions were just 10.3 billion USD (Desai, Dharmapala, 2006).

New fiscal policy tendencies (Desai, Dharmapala, 2006) are driving corporations to apply new methods, more or less legal, in order to relax the fiscal burden, but these methods are attracting social responsibility advocates attention, because they are strong sustainers of transparency in determining fiscal obligations owe to the state budget. The fiscal pressure has been determined as percentage of fiscal obligations in GDP or as the difference between accountable profit and fiscal profit or as the effective tax level.

Traditionally, incorporating the fiscal policy into a social responsibility agenda has been blocked by the existing pressures between stakeholders and state's institutions collecting fiscal obligations. Because fiscal obligations are perceived as a transfer between stakeholders and state, for a corporation is very difficult to make public their value (Desai, Dharmapala, 2006).

The correlation between corporation – corporative social responsibility actions – fiscal policy has been generally presented in Reuven Avi-Yonah's (2009) paper, the author synthesizing three approaches as regard to this correlation, as follows:

1. *Corporation – artificial entity*

This type of corporation is created by the state, this one offering the necessary conditions to operate on the market, the protection of property rights and the infra-structure and qualified personnel. Thus, corporations are obliged to take social responsible actions without any fiscal advantages deriving from these social actions. Furthermore, these corporations have no need to apply aggressive fiscal policies in order to diminish their state obligations because the state is their maker and the one providing the necessary conditions so that the corporations can normally function and, in return, the state expects them not to create supplementary burden.

2. *Corporation – real entity*

In this approach the corporation acts just like a human person with rights and obligations. The corporate social responsibility activities are not especially requested by the state but are encouraged when they take place, these actions showing the society wellbeing. This approach is generally spread among managers.

3. *Corporation – network of contracts*

In the mid '90's (Avi-Yonah, 2009) corporations attitude versus social responsible actions has changed as their main objective has changes towards shareholders wealth maximization. Thus, corporate social responsible actions are representing an illegal shareholders taxation, because these actions are not correlated with the corporation long term objective. But this approach regarding the corporative social responsibility actions and their impact upon taxation may lead to strategic behaviours. Thus, taxes are considered costs, and, as all costs, they must be reduced to minimum, because corporations are aiming to minimize taxes and maximize capitalisation as defined through the report profit/action.

Corporations fiscal burden can be, generally, estimated using the effective tax quota determined as a ratio between the profit tax quantum and the gross profit (Richardson, Lanis, 2007, Vintila et al., 2010) or as a report between the profit tax quantum and the operational cash-flow (Gupta, 1997, Richarsdon, Lanis, 2007). Thus, the effective tax quota is more relevant than the statutory one because the statutory quota does not reflect the actual fiscal burden because it does not take into account the fiscal stimulants (reduced imposable bases or different fiscal treatment for different revenues and expenses) offered by the fiscal authorities (Vintila et al., 2010).

In a study (Watson, 2011) realized upon 10.000 data (corporation-years) collected from the US companies between 1995 and 2008 a reverse relationship between corporative social responsibility and fiscal aggressiveness is established. The author is trying to quantify the level of aggressiveness per corporation taking into account the fiscal facilities stating that the most aggressive and valuable fiscal strategies have as effect accountable and fiscal differences. The fiscal aggressiveness is measured through three indicators from which two indicators are showing the differences between accountable and fiscal values (one indicator is showing the differences between accountable and fiscal profit and another one is showing the differences between accountable and fiscal residual values, differences that are coming from fiscal strategies rather than profit's financial management) and the third indicators is the effective tax quota for a five years horizon. Generally, this study is showing that between corporative social responsibility actions and fiscal aggressiveness is a reverse relationship and the social responsible actions are affecting the company's fiscal statements.

3. Study regarding the correlation between corporative social responsibility and fiscal policy; example for Romanian listed corporations at the Bucharest Stock Exchange

Starting from previous researches (Desai, Dharmapala, 2006, Williams, 2007, Avi-Yonah, 2009, Lanis, Richardson, 2011, Watson, 2011) this study aims to empirically investigate if a corporation approach regarding the corporative social responsibility actions is influencing its level of aggressiveness, for listed Romanian companies at the Bucharest Stock Exchange.

Using financial statements for 40 Romanian listed companies for 2010 we have examined the association between corporative social responsibility and fiscal aggressiveness. We aimed at testing the hypothesis sustained by researchers in this domain (Lanis, Richardson, 2011, Watson, 2011) that have stated that companies more involved in corporate social responsibility actions are less fiscal aggressive while social irresponsible corporations are presenting a higher fiscal aggressiveness.

In order to analyze the correlation between corporative social responsibility and fiscal aggressiveness, as a measure for fiscal aggressiveness we have used the effective tax quota, and a measure of the implication level in corporative social responsibility actions we have used the corporative social responsibility index, determined (Moscalu, Vintila, 2012) according to data from annual reports.

The effective tax quota has been determined as the ratio between the profit tax and the gross profit, information for determining this tax being available in the annual reports for the analyzed corporations. For our 40 corporations sample we have eliminated three because these have presented negative effective quotas, so we have been left with 37 corporations.

Corporative social responsibility index has been determined by analyzing 40 Romanian listed companies upon the Bucharest Stack Exchange from both first and second category, grouped in five activity sectors. For all 40 companies there have been collected information regarding: (1) corporative social responsibility (information collected from the annual reports and web sites); (2) financial information from 2008 until 2010 (information collected from financial statements and the financial synthesis from the Bucharest Stock Exchange site); (3) market information (information collected from the Bucharest Stock Exchange site). Then, the companies have been evaluated according to 42 criteria grouped in five categories, as follows: (1) reports regarding sustainability or environment and integrated management systems; (2) environment management; (3) products and services; (4) health and work security; (5) society and human rights. The first category evaluates the implications of a corporation in social responsibility actions and includes 10 evaluation criteria. The second category is formed by 9 evaluation criteria regarding the environmental management, while the third category evaluates the quality management as regard to products and services through a set of seven evaluation criteria. The fourth category is evaluating the corporation policy as regard to its employees and includes six criteria, while the last one is also the largest one including 10 evaluating criteria regarding the corporation engagement in respecting human rights. Starting from these five categories we have determined for each corporation five individual indicators, one for each category (the indicators have been determined by reporting the number of realized criteria to the total criteria afferent to each category) and the general indicator (corporate social responsibility index) has been determined as the five individual indicators average.

In our analysis beside the dependent variable (the effective tax quota) and the independent variable (corporate social responsibility index) there have been included other factors that can influence the aggressiveness level, grouped in two categories: factors influencing the effective tax quota tested in profile researches (Gupta, Newberry, 1997, Nicodeme, 2001, Richardson, Lanis, 2007, Vintilă et al., 2010) as well as factors influencing corporative governance.

The study's results are limited because the public information regarding listed Romanian companies are limited for both implications in corporative social responsibility activities and effective tax quotas.

In order to better present the Romanian framework a seven independent variables model has been tested, the model verifying all the statistical hypothesis. The model is:

$$ETR_i = \alpha_0 + \beta_1 \times PSC_{it} + \beta_2 \times GROWTH_{it} + \beta_3 \times TROUBLE_{it} + \\ + \beta_4 \times CEOTEN_{it} + \beta_5 \times LEV_{it} + \beta_6 \times INVINTit + \beta_7 \times CINT_{it} + \varepsilon_{it},$$

where:

i = corporations (1-37);

t = the financial year (2010);

ETR = effective tax quota;

PSC = corporate social responsibility index with value from 0 to 1;

GROWTH = corporation's growth measured as total assets relative modification for the two years before the analyzed one;

TROUBLE = dummy variable that will be 1 if the company had registered at least three annual losses in the last six years before the analyzed one and 0 if not;

CEOTEN = the period (years) since when the general director is occupied this function;

LEV = leverage, determined as the report between long term debt and total assets;

CINT = report between immobilizations and total assets;

INVINT = report between stocks and total assets;

ε = error term.

The variables have registered the following values as shown in the Table 1:

Table 1

Model's variables

	ETR	CEOTEN	CINT	GROWTH	INVINT	LEV	PSC	TROUBLE
Mean	0.161233	8.540541	0.585035	0.013644	0.112477	1.700415	0.446358	0.162162
Median	0.166447	6.000000	0.456722	0.013404	0.102884	0.543051	0.440952	0.000000
Maximum	0.624836	21.00000	3.200862	0.574003	0.607849	11.57684	0.911429	1.000000
Minimum	0.000000	1.000000	0.013320	-0.341949	0.000000	-5.191178	0.057143	0.000000
Std. Dev.	0.160492	6.982496	0.661878	0.154481	0.116711	3.680221	0.213701	0.373684
Skewness	0.845637	0.552402	3.068552	0.739774	2.244686	1.443505	0.085544	1.833089
Kurtosis	3.277622	1.878256	12.43588	6.775019	9.937118	4.873318	2.365693	4.360215
Jarque-Bera	4.528613	3.821639	195.3289	25.34474	105.2620	18.25973	0.665409	23.57369
Probability	0.103902	0.147959	0.000000	0.000003	0.000000	0.000108	0.716982	0.000008
Sum	5.965603	316.0000	21.64628	0.504827	4.161635	62.91534	16.51524	6.000000
Sum Sq. Dev.	0.927273	1755.189	15.77096	0.859118	0.490376	487.5851	1.644053	5.027027

Source: own calculation.

In order to test if the independent variables are statistically significant we tested the critical probabilities (P-value or prob). If the associated probability is under the working relevance level (1%, 5% or 10%) we then reject the null hypothesis and the coefficient is statistically significant. If the probability is higher than the relevance level than the null hypothesis is accepted and so the coefficient will not be statistically significant and its value will be 0.

Using the E-views software the regression results are as follows:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CEOTEN	0.005098	0.004027	1.266184	0.2155
CINT	-0.012984	0.036475	-0.355955	0.7245
GROWTH	-0.618631	0.203509	-3.039827	0.0050
INVINT	-0.509599	0.250711	-2.032618	0.0513
LEV	0.011608	0.008000	1.450914	0.1575
PSC	-0.089358	0.113633	-0.786371	0.4380
TROUBLE	-0.231819	0.064710	-3.582426	0.0012
C	0.248783	0.072421	3.435248	0.0018
R-squared	0.420858	Mean dependent var		0.161233
Adjusted R-squared	0.281065	S.D. dependent var		0.160492
S.E. of regression	0.136081	Akaike info criterion		-0.962323
Sum squared resid	0.537023	Schwarz criterion		-0.614017
Log likelihood	25.80298	Hannan-Quinn criter.		-0.839529
F-statistic	3.010581	Durbin-Watson stat		1.477582
Prob(F-statistic)	0.016694			

The "F" test is measuring how well the independent values are explaining the dependent value. As in the case of "t" test, the software program is reporting the test value and its associated probability. If the probability value is under the working relevance level then the null hypothesis is rejected meaning that at least one of the regression coefficients is statistically significant.

Another indicator showing if the econometrical model is well specified is R^2. This indicator shows how much from the total variance of the dependent variable is determined by the independent variables. R^2 will take values been 0 and 1, and as closed to 1 its value is as better specified the model will be. Every time a new independent variable is introduced, correlated even a little with the dependent variable, R^2 will increase in value, but at the same time an independence degree is lost. Thus, a better than R^2 way to measure if the model is correct is adjusted-R^2 this test taking into consideration the independent variables number included in the regression model (Codirlasu, 2007).

If the regression analysis is focused upon evaluating the connection between two or more variables (just like in our case) and not upon realizing prognosis, it is not important that the R^2 and the adjusted- R^2 values are high.

For our model the "F" test is registering a satisfactory probability (under the working relevance level of 5%) and the R^2 value is low, meaning that there are other variables influencing the effective tax quota.

According to associated probabilities for independent values we can state that two variables (for a 5% significance threshold) and three variables (for a 10% significance threshold) from the seven variables are statistically significant (TROUBLE, INVINT and GROWTH), while the others, with higher probabilities, are not statistically significant.

We can see that the empirical results of this regression analysis for Romanian listed companies are not showing the existence of a correlation between the fiscal aggressiveness and the corporative social responsibility, the critical probability (prob) associated to the independent variable coefficient is very high, the coefficient being considered, statistically, with a 0 value.

4. Conclusions

The lack of correlation between fiscal aggressiveness and corporative social responsibility can be explained not only by the lack of an aggressive behaviour among Romanian listed corporations, but by the specific fiscal regulation in the analyzed period as well as by the diminished interest as regard to corporative social responsibility activities in the Romanian business environment, because this concept is still fresh on the market, being introduced just in the early 2000 by multinational by promoting innovative concepts and products.

By exception, in the analyzed period, Romanian fiscal regulation were stating the payment of a minimum profit tax whether the legal person was realizing a fiscal profit (if the profit tax determined using the fiscal profit was under the minimum tax the legal person was oblige to pay the minimum profit tax) or a fiscal loss (under normal conditions this situation would have permitted the profit tax payment postponement until the fiscal loss was totally recovered from future profits).

The study has some deficiencies due to the lack of information as well as the unpredictable Romanian market character. Romanian companies have a fiscal behaviour that can be hard to identify as a tendency and the corporative social responsibility activities are not currently integrated in ordinary corporation's functions. In the future we intend to adjust the model by enlarging the data base (introducing RASDAQ listed corporations into analysis) as well as by expending the effective tax quota influence factors (such as research and development expenses in total turnover, foreign (external) operations, political decisions) or by considering other ways to quantify the fiscal aggression and/or corporative social responsibility.

As a general conclusion we state that no matter the theory adopted as regard to the correlation between type of corporation – corporative social responsibility actions – fiscal policy, an fiscal aggressive behaviour is not justifiable in order to make from reducing taxes the main goal of corporation. On the other hand the state can embrace the role of fulfilling on its own some corporative social responsibility actions or it can delegate the private sector in realizing them if it is more efficient in doing so. But, in a market economy, the state can, rarely, impose to private agents to realize corporative social responsibility actions and none of the presented approaches suggests that the state, through legal measures, is forcing corporations to act so.

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