

**SOCIAL RESPONSIBILITY, ETHICS AND TAX AVOIDANCE:
A STUDY OF HONG KONG TAX PROFESSIONALS**

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Abstract

This study investigates the effects of attitudes toward the perceived importance of corporate ethics and social responsibility and Machiavellianism on professional tax practitioners' willingness to advocate aggressive avoidance schemes on behalf of corporate clients. We hypothesize that practitioners who perceive corporate ethics and social responsibility as more important will judge aggressive avoidance less favourably, and accordingly will estimate a lower likelihood of acquiescence in such schemes. We also hypothesize that practitioners with stronger Machiavellian orientations will be less likely to feel that corporate ethics and social responsibility are important, and more likely to judge aggressive tax avoidance schemes favourably. The findings, based on a survey of tax professionals in Hong Kong, support the hypotheses.

Key words: corporate social responsibility; corporate ethics; tax avoidance; Machiavellianism

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i. Introduction

There seems to be growing public concern regarding the ethical behaviour of professional tax advisors. For example, large public accounting firms have recently been investigated for facilitating client tax evasion through the marketing of aggressive or questionable tax shelters (Scannell, 2005; Herman, 2004; Johnston, 2004), and companies are often accused of incorporating in foreign “tax havens” for the express purpose of avoiding or evading their tax obligations (Godar et al., 2005). The facilitation of such strategies by tax advisors raises concerns regarding the ethical standards of these professionals.

Many studies have investigated ethical decision making processes relating to taxation (e.g., Henderson and Kaplan, 2005; Sakurai and Braithwaite, 2003; Shafer, 2001; Yetmar and Easton, 2000; Kaplan et al., 1997; Burns and Kiecker, 1995), but the effects of certain ethical beliefs and attitudes that appear relevant to tax professionals’ judgements remain unexamined in this context. The current paper extends previous research by investigating the effects of two previously unexamined variables on professional tax advisors’ ethical judgements and willingness to acquiesce in aggressive tax avoidance schemes: the perceived importance of corporate ethics and social responsibility, and Machiavellianism.

It has long been recognized that overly aggressive tax avoidance violates principles of ethics and social responsibility (e.g., Schwartz and Orleans, 1967), but the

effects of tax advisors' beliefs regarding the importance of corporate ethics and social responsibility on their willingness to advocate avoidance schemes has not previously been addressed. Business ethics researchers have also recognized the implications of Machiavellianism for ethical decision making, and Ghosh and Crain (1995) found that taxpayers with stronger Machiavellian orientations were more likely to engage in intentional non-compliance. However, the effect of Machiavellianism on professional tax advisors' willingness to advocate aggressive tax avoidance remains an open question, as does the relationship between Machiavellianism and beliefs regarding the importance of corporate ethics and social responsibility. We investigate these issues in the current paper using a sample of tax professionals from Hong Kong.

The following section presents a review of relevant literature and the development of our research hypotheses regarding the effects of the perceived importance of corporate ethics and social responsibility and Machiavellianism on tax professionals' decision making processes. This is followed by discussions of the research method and findings. The paper concludes with a discussion of the results and suggestions for further research.

ii. Literature review and hypothesis development

1. Perceived importance of ethics and social responsibility

It is often recognized that aggressive tax avoidance, or the failure to pay one's "fair share" of taxes, violates principles of social/civic responsibility (e.g., Cialdini, 1989; McGraw and Scholz, 1991; Scholz and Pinney, 1995). Indeed, researchers have explicitly

raised the question of how a sense of civic duty or social responsibility to pay one's taxes can be nurtured in the community in order to promote compliance (Sakurai and Braithwaite, 2003). A limited amount of empirical evidence also suggests that social responsibility considerations influence the likelihood of aggressive avoidance among taxpayers. For instance, in one of the earliest studies of tax compliance behaviour, Schwartz and Orleans (1967) found that participants who were sensitized to the social responsibility aspect of tax compliance by reading a series of statements were more likely to report truthfully in an experimental setting.

Recent revelations of tax professionals facilitating corporate tax avoidance schemes raise doubts as to whether these professionals feel that corporate ethics and social responsibility are important. Surprisingly, however, empirical studies have not addressed the effect of tax professionals' attitudes toward corporate ethics and social responsibility on their ethical decisions. Most recent empirical studies relating to ethics in taxation have focused on taxpayers rather than professional tax advisors, and accordingly have not addressed issues relating to corporate social responsibility (e.g., Henderson and Kaplan, 2005; Wenzel, 2005; Bobek and Hatfield, 2003).

Research in the business ethics literature suggests that attitudes toward the importance of corporate ethics and social responsibility to organizational success will have an important influence on ethical decision making processes. Singhapakdi et al. (1996, p. 1132) argue that such attitudes are "...likely to be a key determinant of whether or not an ethical problem is even perceived in a given situation..." by corporate managers. Singhapakdi et al. (2001, p. 134) acknowledge that "This is a pragmatic view based on an argument that managers must first perceive ethics and social responsibility to be vital to

organizational effectiveness before their behaviours will become more ethical and reflect greater social responsibility”, and also observe that this view is consistent with models of ethical decision making in business. For instance, the Hunt and Vitell (1986, 1991) model recognizes that individuals will make both a deontological and a teleological evaluation of an ethical issue, with the teleological evaluation incorporating considerations such as the perceived probability and desirability of consequences. Jones’ (1991) issue-contingent model of ethical decision making also recognizes that the perceived moral intensity of ethical issues will be influenced by teleological considerations such as the perceived probability and magnitude of effects on stakeholders. Teleological evaluations of ethical issues should clearly be influenced by perceptions of the importance of ethical behaviour to organizational success.

Singhapakdi and his colleagues (Singhapakdi et al., 1995, 1996) developed an instrument to measure the Perceived Role of Ethics and Social Responsibility (PRESOR) in organizational effectiveness. This scale has been used in several previous studies, although most of these studies have focused on either documenting cross-national differences in PRESOR results or investigating the determinants of PRESOR responses. For example, Singhapakdi et al. (2001), Ahmed et al. (2003), and Axinn et al. (2004) all document cross-cultural differences in PRESOR responses. In addition to culture, several variables have been found to influence PRESOR responses, including ethical ideology (idealism vs. relativism), organizational ethical climate, age, and gender (see Singhapakdi et al., 2001; Axinn et al., 2004). Despite the conceptual arguments offered by Singhapakdi et al. (2001) for the influence of the perceived importance of ethics and social responsibility on ethical decision making processes, previous studies have

generally focused on the antecedents rather than the consequences of PRESOR responses.

The current paper suggests that the perceived importance of ethics and social responsibility to organizational success should have a significant impact on the ethical decision making processes of tax professionals. The items included in the PRESOR scale (see Appendix A) may be grouped into two broad categories: the “stockholder view” and the “stakeholder view” (Axinn et al., 2004).¹ As the name suggests, the items included under the stockholder view heading reflect a rather limited and narrow view of corporate obligations that emphasizes the importance of profitability and duties only to stockholders, i.e., this is a view that appears consistent with Friedman’s (1962) well-known argument that the only responsibility of business is to make a profit, within legal boundaries. This attitude, if held by tax professionals, could easily be used to rationalize the facilitation of aggressive tax avoidance strategies, and due to a “slippery slope” effect may also lead to the promotion of strategies that cross the line into tax evasion. If faced with pressure to implement an aggressive tax avoidance scheme, professionals who believe that a corporation’s ethical or social obligations extend only to shareholders, or that principles of ethics and social responsibility must be sacrificed for the sake of corporate profitability, should be more likely to engage in a rationalization process that leads them to judge the scheme as being acceptable (“ethical” or “socially responsible”). Lenient ethical judgements should in turn increase the likelihood of acquiescence in

¹ The original PRESOR scale contained 16 items, 13 of which loaded onto three factors labelled “short-term gains”, “long-term gains”, and “social responsibility and profitability” in the Singhapakdi et al. (1996) study. Axinn et al. (2004) found that 14 of the original 16 items loaded onto three factors which they labelled “stockholder view”, “stakeholder view I”, and “stakeholder view II.” Etheredge (1999) found that the PRESOR items loaded on two factors based on his study of Hong Kong managers: one factor that included four of the five “stockholder view” items listed in Appendix A, and one factor comprising five of the eight “stakeholder view” items. Thus, the available evidence on the factor structure of the scale based on Hong Kong business professionals corresponds well with the stockholder vs. stakeholder dichotomy, and accordingly we have adopted this terminology.

questionable avoidance schemes.^{2,3}

In contrast to the stockholder view, individuals who adopt a broader stakeholder view feel that businesses have a social responsibility beyond making a profit, that ethical and socially responsible business behaviour is critical to long-term business success and survival, and that social responsibility is compatible with profitability. Such individuals are likely to feel that aggressive tax avoidance not only violates a corporation's social and ethical obligations, but also may pose a threat to the long-term success and survival of the organization. Accordingly, tax professionals who endorse the stakeholder view should judge aggressive avoidance schemes more harshly (i.e., as less "ethical" or "socially responsible"), and consequently should be less likely to acquiesce in such schemes.

As indicated in Appendix A, all items included in the stockholder view category are reverse scored, while none of the stakeholder view items are reverse scored. Thus, high scores on the PRESOR scale (belief in the importance of ethics and social responsibility) are associated with the rejection of the stockholder view and endorsement of the stakeholder view. In line with the above arguments, tax advisors who reject the narrow conception of corporate responsibilities embodied in the stockholder view and acknowledge the broader scope of obligations reflected in the stakeholder view should judge aggressive tax avoidance more negatively and estimate a lower likelihood of

² We believe this reasoning applies equally to tax professionals employed by corporations and by public accounting firms. Tax experts employed by corporations may face significant pressures to satisfy the demands of their employers. Professionals employed by public accounting firms may face similar pressures to acquiesce to demands by corporate clients for the facilitation of tax avoidance.

³ We are relying here on the classic Rest (1986) formulation of ethical decision making, which postulates a four-part process: (1) recognition of an ethical or moral issue; (2) making an ethical judgement; (3) developing behavioural intentions; and (4) engaging in actual behaviour. The Rest formulation has been influential in research on business ethics, and is incorporated into widely cited models of ethical decision

participating in such schemes. Consequently, we propose the following research hypotheses:

Hypothesis 1: Tax professionals who believe more strongly in the importance of corporate ethics and social responsibility will judge aggressive tax avoidance schemes more negatively (less ethical and socially responsible).

Hypothesis 2: Tax professionals who judge aggressive tax avoidance schemes more negatively (less ethical and socially responsible) will estimate a lower likelihood of acquiescence in such schemes.

2. Machiavellianism

The Machiavellianism construct, as originally conceived, was intended to capture a manipulative, cold and calculating personality (Christie, 1970a). The Machiavellianism scale was initially developed by assembling a list of items believed to be theoretically congruent with arguments taken from Niccolo Machiavelli's *The Prince* and *The Discourses*. Based on their analyses of these works, Christie and his colleagues identified three themes underlying Machiavellianism: (1) advocacy of manipulative tactics such as the use of guile or deceit (2) an unflattering view of humans as being weak, cowardly, and easily manipulated; and (3) a lack of concern with conventional morality (Christie, 1970b; Christie and Lehmann, 1970).

Although the focus of most early Machiavellianism research was on the use of deceit or manipulative tactics in interpersonal relations (see Christie and Geis, 1970), the construct appears to be relevant to many ethical decision making contexts. It seems quite likely that someone who is prone to the use of manipulative or deceitful tactics and who

making such as the Hunt and Vitell (1986, 1991) model. Reliance on the Rest model leads one to hypothesize a direct relationship between ethical judgements and behavioural intentions.

lacks a concern for conventional morality will engage in unethical behaviour across a variety of settings. Individuals who score high on Machiavellianism tend to be less distracted by moral concerns such as fairness and justice, and better able to single-mindedly pursue “winning” (Geis et al., 1970). Such personality traits seem likely to motivate the pursuit of deceitful or manipulative tactics in a business context. Indeed, it seems likely that people will be more prone to unethical behaviour in business vis-à-vis personal settings. That is, high Machiavellians should arguably be even more likely to adopt ethically questionable tactics in the pursuit of “winning” in business.

Empirical research suggests that Machiavellianism does have a significant impact on ethical decision making across a wide variety of business contexts. In laboratory experiments involving a business simulation game, Hegarty and Sims (1978, 1979) found that high (low) Machiavellian business students playing the role of sales managers were significantly more (less) likely to pay kickbacks to purchasing agents to increase sales. Singhapakdi and Vitell (1991) found that high Machiavellian marketers tend to possess lower deontological ethical norms. In an experimental study using undergraduate business majors as surrogates for taxpayers, Ghosh and Crain (1995) found that Machiavellianism and attitudes toward risk each had a highly significant effect on intentional tax non-compliance, with high Machiavellians being more likely to report dishonestly. In a survey of professional salespeople, Ross and Robertson (2000) found that Machiavellianism increased to tendency to lie, and that high Machiavellians were more likely to exploit the lack of clear ethical guidelines to mislead others. Wirtz and Kum (2004) found that high Machiavellians were more likely to cheat on service guarantees, based on their survey of office workers and members of the general public in

Singapore. In a recent study of working adults in the US, Winter et al. (2004) conclude that individuals who score high on Machiavellianism believe it is more acceptable to violate the intellectual property and privacy rights of others.

It seems that, virtually by definition, high Machiavellians, who lack concern for conventional morality and are prone to unethical and manipulative tactics, will be less likely to perceive ethics and social responsibility as important in business contexts. The previous research on the effects of Machiavellianism on ethical decision making processes in business certainly supports this argument, indicating that high Machiavellians tend to have lower ethical standards and are prone to unethical behaviour across a variety of business settings. Several studies have found that individuals' personal ethical beliefs or ideologies influence their perceptions of the importance of ethics and social responsibility in business (e.g., Vitell and Paolillo, 2004; Vitell et al., 2003; Singhapakdi et al., 2001; Singhapakdi and Vitell, 1991). However, the relationship between Machiavellianism and PRESOR responses has not been investigated. This motivated the following hypothesis:

Hypothesis 3: Tax professionals with stronger Machiavellian orientations will believe less strongly in the importance of corporate ethics and social responsibility.

Machiavellianism should also have a significant impact on judgements of the acceptability of aggressive tax avoidance schemes. Such schemes may be viewed as manipulative tactics designed to promote profitability, survival, or "winning" in competitive business contexts. High Machiavellians, with their propensity for calculative strategic tactics and their relatively low standards of morality or ethics, should judge such schemes more leniently than low Machiavellians. As previously indicated, Ghosh and

Crain (1995) concluded that high Machiavellian taxpayers were significantly more likely to engage in intentional non-compliance. However, the effect of Machiavellianism on the ethical judgements of professional tax advisors has not previously been investigated.

Accordingly, we propose the following hypothesis:

Hypothesis 4: Tax professionals with stronger Machiavellian orientations will judge aggressive tax avoidance schemes less negatively (more ethical and socially responsible).

The hypothesized relationships are summarized in the path model presented in Figure 1. As the figure makes clear, we are hypothesizing that Machiavellianism has both direct and indirect effects on tax professionals' ethical/social responsibility judgements. This is consistent with the view that Machiavellianism, as a basic personality trait, potentially affects a variety of attitudes that in turn may influence a person's judgements and behaviour (Christie and Geis, 1970).

[Figure 1 about here]

iii. Methodology

A survey was used to test the hypotheses. The target population was all tax professionals in Hong Kong, including practitioners in both public accounting and private industry.⁴ To the extent possible, we sought to select a sample that was representative of

⁴ As previously indicated, it was felt that our theory and hypotheses apply to professional tax advisors regardless of employment type. As indicated in the next section, employment type had no effect on the results. As discussed later, a negligible number of participants were government employees. Although government employees were not part of our target population, it was not possible to exclude them from the sampling procedure.

this population. The sample frame chosen was the full membership listing of a professional institute in Hong Kong.⁵ This resulted in a sample of approximately 1050 tax professionals, each of whom was mailed a questionnaire.

The questionnaire was divided into three parts. The first part contained two short scenarios (illustrated in Appendix B), each describing the action of a tax professional in a situation that poses a potential ethical dilemma. The scenarios were selected after discussion with two Hong Kong tax professionals, who agreed that they were technically sound and likely to be commonly confronted by tax professionals in Hong Kong. The first scenario involved the use of a commonly used tax haven to shelter profits from Hong Kong taxation. The second scenario concerned the shifting of profits to a loss-making associated company through the use of management fees in order to reduce the group's tax liability. Both scenarios involve the conscious misrepresentation of facts to the revenue authorities, and thus inhabit the grey area between tax avoidance and evasion.

In each case, participants were provided with an action statement of a hypothetical tax professional. At the end of each scenario, they were asked to indicate, on a seven-point scale, the extent to which the respondent felt the tax professional's action was first, ethical and second, socially responsible. Social responsibility judgements were elicited because, as previously argued, aggressive tax avoidance schemes raise concerns regarding corporate social responsibility. The respondents were further asked to indicate, also on a seven-point scale, the probability that their peers would undertake the same action. This measure was used as a surrogate for the behavioural intentions of the respondent him/herself, having the advantage of controlling for possible social

⁵ A condition for co-operation with the professional institute was that its identity would not be revealed.

desirability bias (Cohen et al., 1996; Randall and Fernandes, 1992). All dependent measures employed seven-point likert scales. The ethical judgement scale was anchored on “ethical” (1) and “unethical” (7). The scale for social responsibility judgements was anchored on “socially responsible” (1) and “not socially responsible” (7). The behavioural intentions scale was anchored on “low” (1) and “high” (7).

The second part of the questionnaire included the PRESOR scale (Singhapakdi et al., 1996) and the Mach IV Machiavellianism scale (Christie and Geis, 1970).⁶ Both of these scales have been used extensively in previous research in business ethics and have been found to possess reasonable reliability and validity. The items included in both scales are illustrated in Appendix A. Responses were again provided on seven-point likert scales. A single score for Machiavellianism is computed by summing responses to the individual items and adding a constant of 20 (Christie and Geis, 1970). The final part of the questionnaire requested supplementary information on the respondents themselves: age, sex, number of years of professional experience in taxation, type of employment, and educational and professional qualifications. A pilot study, involving students from the researchers’ university, was undertaken, after which some minor alterations and clarifications were made to the questionnaire.

In order to encourage an adequate response rate, an email was sent by the Institute to its members one week before the mailing, informing them of the forthcoming survey and asking them to complete and return the questionnaire upon receipt. In addition to the questionnaire, the mailing contained two cover letters, one from the institute and one

⁶ The Mach IV is the most commonly used measure of Machiavellianism. However, because the original Mach IV instrument contained gender-specific statements (e.g., “Most men are brave”) that seem less appropriate today, we used the gender-neutral version of the scale recommended by Zook and Sipps (2001).

from the researchers, asking members to complete the instrument. The researchers' cover letter informed respondents that any information received would be used for academic purposes only and individual responses would be kept strictly confidential. The mailing also contained a pre-paid, addressed envelope for replies. To ensure confidentiality of the membership roll, the institute directly mailed the questionnaire to its members. Responses were sent directly to the researchers. A second mailing was undertaken approximately three weeks later.

A total of 120 responses were received. One response was incomplete and was eliminated, leaving 119 useable responses. This represented approximately 11 percent of the sample population. In view of the sensitive nature of the survey topic, this response rate was considered reasonable. In order to check for non-response bias, early and late responses were compared, and no significant differences were noted. Demographic details of the respondents are shown in Table 1 below.

[Table 1 about here]

Of the 119 respondents, the great majority was male (84 percent). The average age of respondents and the average professional experience in taxation was approximately 45 years and 19 years respectively. Over half the respondents (56 percent) were employed by public accounting firms, and approximately 30 percent were employed by private companies. The remaining respondents were employed by the government or by "other" organizations. Most respondents possessed a degree, most commonly a bachelors (31 percent) or a masters degree (45 percent). Over three-quarters of

respondents (78 percent) were CPAs, while 23 percent were chartered accountants (CAs), 57 percent had ACCA certification and 28 percent had other certifications. Thus a large percentage of participants had multiple certifications.

iv. Results

1. Preliminary analyses

The means and standard deviations for the dependent measures are summarized in Table 2. For scenario A, the mean ethical and social responsibility judgements were 6.11 and 5.50 respectively, indicating that in general participants felt that the tax advisor's behaviour was unethical and socially irresponsible. The mean response for the likelihood of peers committing a similar action was 2.84, suggesting that in general respondents believed it was unlikely that their peers would undertake the same action. For Scenario B, the mean responses for ethical (social responsibility) judgements were 5.11 (4.86), somewhat lower than those for Scenario A. However, the means were still towards the high end of the scale, indicating that in general respondents felt that the actions of the tax advisor were unethical and socially irresponsible. The mean likelihood estimate was 4.01, towards the centre of the scale, suggesting that respondents believed it was more likely in this scenario that their peers would undertake the same action.

[Table 2 about here]

Preliminary tests were run to test for potential effects of demographic variables. Correlation analysis revealed that neither age nor professional experience were correlated with any of the dependent measures. Univariate ANOVA models also revealed that, with a single exception, none of the categorical measures (gender, employment type, degree type, certifications held) had a significant impact on any of the dependent measures. The exception was that ACCA certification status had a significant effect on both ethical and social responsibility judgements for Scenario B. However, since there was no *prima facie* reason why this should be the case, and since the significant effect was present only for one of the two scenarios, it was decided to ignore this effect. Thus, none of the demographic variables were included further in the analysis.

The internal reliabilities for the PRESOR and Machiavellianism scales were also examined. For the 20 Machiavellianism statements, the alpha coefficient was .73, which compares favourably with that reported in previous studies (see Christie and Geis, 1970; Zook and Sipps, 2001). The coefficient alpha for the 13 PRESOR statements was also relatively high at 0.78, indicating that it would be reasonable to treat the 13 items as a unidimensional scale. However, following previous research utilizing the PRESOR scale, we factor analyzed the responses in an attempt to identify meaningful subscales (e.g., Etheredge, 1999; Singhapakdi et al., 2001).

An exploratory principal components factor analysis was used to test the dimensionality of the PRESOR items, the results of which are summarized in Table 3. Four factors emerged with eigenvalues in excess of 1, which collectively explained approximately 60 percent of the variance. The first factor, which explained approximately 22 percent of the variance, was comprised of five stakeholder view items.

The internal reliability of these five items, measured by Cronbach's alpha, was relatively high at .78. The second factor was comprised of all five stockholder view items, which accounted for 16.5 percent of the variance and had an acceptable internal reliability of .71.⁷

[Table 3 about here]

The remaining two factors each consisted of only two items. Factor 3 included two stakeholder view items, one of which also loaded significantly onto Factor 1. Factor 4 was comprised of the two remaining stakeholder view items. The internal reliabilities of these last two factors were relatively low, and they seemed to lack face validity in that they were not readily interpretable as distinct factors.⁸ Consequently, these two factors were excluded from subsequent analyses. For purposes of the hypothesis tests, scales were constructed for Factors 1 (Stakeholder View) and 2 (Stockholder View) by calculating the mean response for the five items comprising each scale.

⁷ These two factors, and their reliabilities, correspond quite closely with the factors and reliabilities identified by Etheredge (1999) in his study of Hong Kong managers. In the Etheredge study, nine of the PRESOR items loaded significantly onto two factors labelled "Importance of ethics and social responsibility" (Importance) and "Subordination of ethics and social responsibility" (Subordination). The Importance factor, which had an internal reliability of .75, included five stakeholder view items, four of which are included in our Stakeholder View factor. The Subordination factor, with a reliability of .73, included four of the five items included in our Stockholder View factor, and the excluded Stockholder View item ("If the stockholders are unhappy, nothing else matters") also had a relatively high (.472) loading on the Subordination factor.

⁸ Correlation analysis also indicated that three of these four items had no significant relationships with any of the dependent measures. The one exception was the item "Being ethical and socially responsible is the most important thing a firm can do", which was significantly correlated with ethical judgements and behavioural intentions. Although this item had a significant cross-loading between Factors 1 and 3, it was retained in the scale for Factor 1 (Stakeholder View), because its elimination reduced the internal reliability of that scale from .77 to .71. All subsequent analyses were conducted both with and without this item included in the Stakeholder View scale, and all results were substantially the same under both methods.

2. Hypothesis tests

As a preliminary test of the hypotheses, the correlations between the dependent and independent variables were examined. The results are shown in Table 4 below. The table includes two alternative measures for the PRESOR scale, the mean responses based on the assumption of a unidimensional construct, and the means for the two subscales identified through our factor analysis.

[Table 4 about here]

In general, the results in Table 4 support all the research hypotheses. Consistent with Hypothesis 1, the unidimensional PRESOR measure exhibits highly significant positive correlations with ethical and social responsibility judgements for both scenarios, suggesting that belief in the importance of corporate ethics and social responsibility leads tax professionals to condemn aggressive avoidance schemes. The same relationships hold true based on the Stockholder View and Stakeholder View PRESOR factors, although the results are clearly stronger for the Stockholder View with all correlations in the predicted directions and significant at the .001 level or smaller. In the case of the Stakeholder View factor, all relationships were also in the predicted direction and all correlations were significant at the .05 level or smaller, with the exception of the correlation between Stakeholder View and social responsibility judgements for scenario B. In that case, the correlation was marginally significant (.085 level). Hypothesis 2 is supported by highly

significant negative correlations between ethical/social responsibility judgements and behavioural intentions for both cases.

According to Hypothesis 3, Machiavellianism should be negatively correlated with PRESOR responses. Consistent with this argument, the results in Table 4 reveal negative correlations between Machiavellianism and each of the three PRESOR measures ranging from $-.473$ to $-.617$, all significant at the $.000$ level. The strongest correlation was that between Machiavellianism and the Stockholder View factor. Hypothesis 4 is supported by strong negative correlations between Machiavellianism and ethical/social responsibility judgements for both scenarios; again, all correlations were highly significant.

To test the hypothesized relationships more formally, path models were constructed using sequential regression analysis. The results of these models, consistent with the correlation analyses, provide strong support for all hypothesized relationships. As indicated in Figure 2, all path coefficients were in the hypothesized directions and all were significant at the $.01$ level or smaller.⁹

[Figure 2 about here]

v. Discussion

The results of the current study provide strong support for each of the four hypotheses. As theorized, tax professionals' perceptions of the importance of corporate

⁹ For purposes of this analysis, judgements of ethicality and social responsibility were combined into one "ethical judgement" variable by calculating the mean of the two responses.

ethics and social responsibility had a significant impact on their ethical/social responsibility judgements, which in turn influenced their behavioural intentions. This is the first study to document a relationship between tax professionals' attitudes toward corporate social responsibility and their ethical decisions, and the results indicate that those professionals who discount the importance of ethical and socially responsible conduct are more likely to facilitate aggressive corporate tax avoidance schemes. Because we found no significant differences in the ethical decisions of tax professionals employed by corporations and public accounting firms, the findings further suggest that the PRESOR construct is relevant to the study of ethical decision making processes not only of corporate employees, but also of professionals such as tax advisors.

This study also adds to the body of research that has documented the influence of Machiavellianism on ethical decision making processes across a wide variety of business contexts. Our results indicate that Machiavellianism has both direct and indirect effects on tax professionals' ethical decisions. As hypothesized, participants scoring higher on Machiavellianism were less likely to feel that corporate ethics and social responsibility are important, and more likely to judge aggressive corporate tax avoidance schemes favourably.

The study is subject to limitations in addition to those addressed in the methodology section. First, the study did not control for the risk profiles of the subjects. Thus, to the extent that the subjects contemplated risk of detection in responding to the scenarios and that risk is correlated with a variable included in the model, omitted variable bias may be present in the results. However, in both of the scenarios utilized in the study, the risk of detection was low, suggesting that subjects' responses would not be

highly influenced by a consideration of risk. Second, since the study obtained a measure of tax compliance intentions in hypothetical situations rather than actual tax compliance behaviour, the effect of the independent variables on the practice of facilitating tax avoidance remains unaddressed. Finally, as the study was restricted to tax professionals in Hong Kong, further research is required in order to assess the generalizability of the results outside that territory. Previous research has found that perceptions of the importance of corporate ethics and social responsibility are affected by the Hofstede cultural dimensions (e.g., Vitell et al., 2003), which suggests that cross-cultural studies of the issues addressed in the current paper may reveal important differences in tax professionals' ethical decision making processes.

The current study is an initial attempt to assess the impact of corporate social responsibility considerations and Machiavellianism on tax professionals' ethical decision making processes, and several related issues could also be examined. One possible avenue for future research would be the interactive effects of Machiavellianism and other variables that influence ethical decisions. For instance, Ross and Robertson (2000) found that high Machiavellian salespersons were more likely to lie when there was a lack of clear ethical guidelines within their company. This finding suggests that the examination of the interactive effects of Machiavellianism and measures of the ethical climate or context (Victor and Cullen, 1987; 1988; Treviño et al., 1998) within public accounting firms or corporations holds promise for providing a better understanding of tax professionals' ethical decisions. Further research could also expand on the model used in the current paper to simultaneously examine the effects of Machiavellianism and other personal variables that have been found to influence ethical decision making, such as

cognitive moral development and locus of control. Prior studies indicate that a variety of factors may influence PRESOR responses; thus, there is also a need to obtain a better understanding of the determinants of tax professionals' perceptions of the importance of corporate ethics and social responsibility. For example, in addition to the effect of cultural differences discussed earlier, Vitell et al. (2003) found that personal moral philosophies (idealism and relativism) and perceptions of organizational ethical values influenced PRESOR scores. Similar research could provide further insights into tax professionals' ethical decisions.

Appendix A Scale Items

PRESOR Scale:

Stockholder view:

1. The most important concern for a firm is making a profit, even if it means bending or breaking the rules.¹
2. To remain competitive in a global environment, business firms will have to disregard ethics and social responsibility.¹
3. If survival of a business enterprise is at stake, then you must forget about ethics and social responsibility.¹
4. Efficiency is much more important to a firm than whether or not the firm is seen as ethical or socially responsible.¹
5. If the stockholders are unhappy, nothing else matters.¹

Stakeholder view:

6. Being ethical and socially responsible is the most important thing a firm can do.
7. The ethics and social responsibility of a firm is essential to its long-term profitability.
8. The overall effectiveness of a business can be determined to a great extent by the degree to which it is ethical and socially responsible.
9. Business ethics and social responsibility are critical to the survival of a business enterprise.
10. A firm's first priority should be employee morale.
11. Business has a social responsibility beyond making a profit.
12. Social responsibility and profitability can be compatible.
13. Good ethics is often good business.

Machiavellianism Scale:

1. Never tell anyone the real reason you did something unless it is useful to do so.
2. The best way to handle people is to tell them what they want to hear.
3. One should take action only when sure it is morally right.¹
4. Most people are basically good and kind.¹
5. It is safest to assume that all people have a vicious streak and it will come out when they are given a chance.
6. Honesty is the best policy in all cases.¹
7. There is no excuse for lying to someone else.¹
8. Generally speaking people won't work hard unless they're forced to do so.
9. All in all, it is better to be humble and honest than to be important and dishonest.¹
10. When you ask someone to do something for you, it is best to give the real reasons for wanting it rather than giving reasons which carry more weight.¹
11. Most people who get ahead in the world lead clean, moral lives.¹
12. Anyone who completely trusts anyone else is asking for trouble.
13. The biggest difference between most criminals and other people is that the criminals are stupid enough to get caught.
14. Most people are brave.¹
15. It is wise to flatter important people.
16. It is possible to be good in all respects.¹
17. The man who said "There's a sucker born every minute" was wrong.¹
18. It is hard to get ahead without cutting corners here and there.
19. People suffering from incurable diseases should have the choice of being put painlessly to death.
20. Most people forget more easily the death of a parent than the loss of their property.

1 = Reverse scored.

Appendix B Tax Scenarios

Scenario A:

Mr. Wong is the tax advisor of Company A, a Hong Kong trading company. The managing director of Company A asks Mr. Wong's advice on earning offshore (and thus tax-free) profits. Mr. Wong suggests setting up a company in the British Virgin Islands. The banking of receipts and payments will be performed in Hong Kong with the knowledge of the IRD. However, while most of the decision-making and buying and selling activities will also continue to be performed at Company A in Hong Kong, the IRD will be informed that these activities are performed in the BVI in order to make the profits free from profits tax. Mr. Wong helps Company A put this plan into operation.

Scenario B:

Mr. Chan has been Company B's tax preparer for several years. This year, Company B has made unexpectedly high profits in the last month of the year. Mr. Chan is asked by the company to create a provision representing management fees for services rendered from an associated company (which has made substantial losses this year) in order to reduce the taxable profits of Company B. Mr. Chan is aware that, in fact, the services provided by the associated company are minimal. Nevertheless, he prepares Company B's tax return with the inclusion of the provision for management fees expense.

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Table 1
Summary of Demographic Data

<i>Gender</i>	
Male	100 (84%)
Female	19 (16%)
<i>Age</i>	
Mean	45.29
Standard Deviation	8.66
<i>Professional experience in taxation (years)</i>	
Mean	19.11
Standard Deviation	10.89
<i>Type of current employment</i>	
Public accounting firm	66 (56%)
Publicly traded (listed) company	15 (13%)
Non-publicly traded (listed) company	20 (17%)
Government	3 (2%)
Other	<u>15 (12%)</u>
	<u>119 (100%)</u>
<i>Educational background (degree held)</i>	
Associate/none	16 (13%)
Bachelors	38 (32%)
Masters	54 (46%)
Other	<u>11 (9%)</u>
	<u>119 (100%)</u>
<i>Professional certifications held¹</i>	
CPA	93 (78%)
CA	27 (23%)
ACCA	68 (57%)
Other	33 (28%)

Note:

1. Numbers do not total 119 because many respondents held more than one professional certification.

Table 2
Responses to Dependent Measures

	<u>Ethical Judgements</u> ¹	<u>Social Responsibility Judgements</u> ²	<u>Behavioural Intentions</u> ³
Scenario A ⁴	6.11 (1.47)	5.50 (1.88)	2.84 (2.07)
Scenario B	5.11 (1.69)	4.86 (1.81)	4.01 (2.08)

Notes:

1. Ethical judgements were measured on a seven-point scale where 1 = “ethical” and 7 = “unethical”.
2. Social responsibility judgements were measured on a seven-point scale where 1 = “socially responsible” and 7 = “not socially responsible”.
3. Behavioural intentions were measured on a seven-point scale where 1 = “low” and 7 = “high”.
4. Reported numbers are mean responses; numbers in parentheses are standard deviations.

Table 3
PRESOR Factor Analysis

	Factor loadings			
	1	2	3	4
Being ethical and socially responsible is the most important thing a firm can do.	.581		.550	
The ethics and social responsibility of a firm is essential to its long-term profitability.	.732			
The overall effectiveness of a business can be determined to a great extent by the degree to which it is ethical and socially responsible.	.717			
Business ethics and social responsibility are critical to the survival of a business enterprise.	.797			
Good ethics is often good business.	.592			
The most important concern for a firm is making a profit, even if it means bending or breaking the rules.		.757		
To remain competitive in a global environment, business firms will have to disregard ethics and social responsibility.		.680		
If survival of a business enterprise is at stake, then you must forget about ethics and social responsibility.		.551		
Efficiency is much more important to a firm than whether or not the firm is seen as ethical or socially responsible.		.556		
If the stockholders are unhappy, nothing else matters.		.552		
A firm's first priority should be employee morale.			.854	
Business has a social responsibility beyond making a profit.				.594
Social responsibility and profitability can be compatible.				.797
Percentage of variance explained	21.6%	16.5%	11.9%	10.6%
Cronbach alpha	.77	.71	.59	.34

Table 4
Correlation Analysis

	ETHA	SRA	PEERA	ETHB	SRB	PEERB	STOCK	STAKE	PRESOR
SRA ¹	0.496 (.000)								
PEERA	-0.427 (.000)	-0.388 (.000)							
ETHB	0.552 (.000)	0.299 (.001)	-0.208 (.023)						
SRB	0.390 (.000)	0.525 (.000)	-0.178 (.052)	0.724 (.000)					
PEERB	-0.187 (.042)	-0.261 (.004)	0.633 (.000)	-0.377 (.000)	-0.345 (.000)				
STOCK	0.409 (.000)	0.363 (.000)	-0.291 (.001)	0.441 (.000)	0.332 (.000)	-0.302 (.001)			
STAKE	0.193 (.035)	0.180 (.050)	-0.312 (.001)	0.220 (.016)	0.159 (.085)	-0.252 (.006)	0.505 (.000)		
PRESOR	0.330 (.000)	0.299 (.001)	-0.348 (.000)	0.363 (.000)	0.264 (.004)	-0.314 (.000)	0.828 (.000)	0.902 (.000)	
MACH	-0.336 (.000)	-0.324 (.000)	0.333 (.000)	-0.337 (.000)	-0.252 (.006)	0.265 (.004)	-0.617 (.000)	-0.473 (.000)	-0.616 (.000)

Notes:

1. Numbers in parentheses are significance levels.

ETHA = Ethical judgements, Scenario A.

SRA = Social responsibility judgements, Scenario A.

PEERA = Behavioural intentions, Scenario A.

ETHB = Ethical judgements, Scenario B.

SRB = Social responsibility judgements, Scenario B.

PEERB = Behavioural intentions, Scenario B.

STOCK = Stockholder view factor from PRESOR scale.

STAKE = Stakeholder view factor from PRESOR scale.

PRESOR = Unidimensional PRESOR scale.

MACH = Machiavellianism.

Figure 1
Hypothesized Relationships

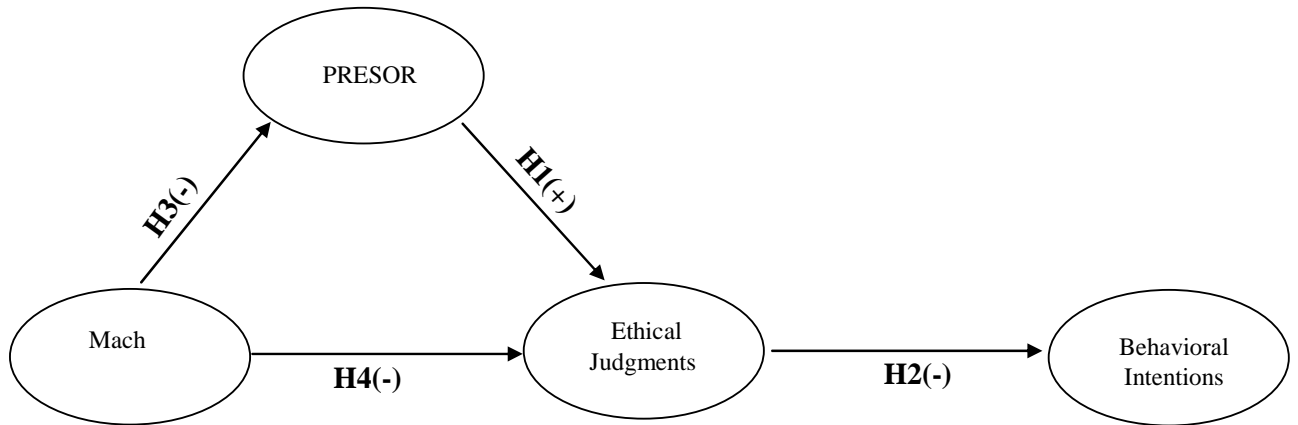
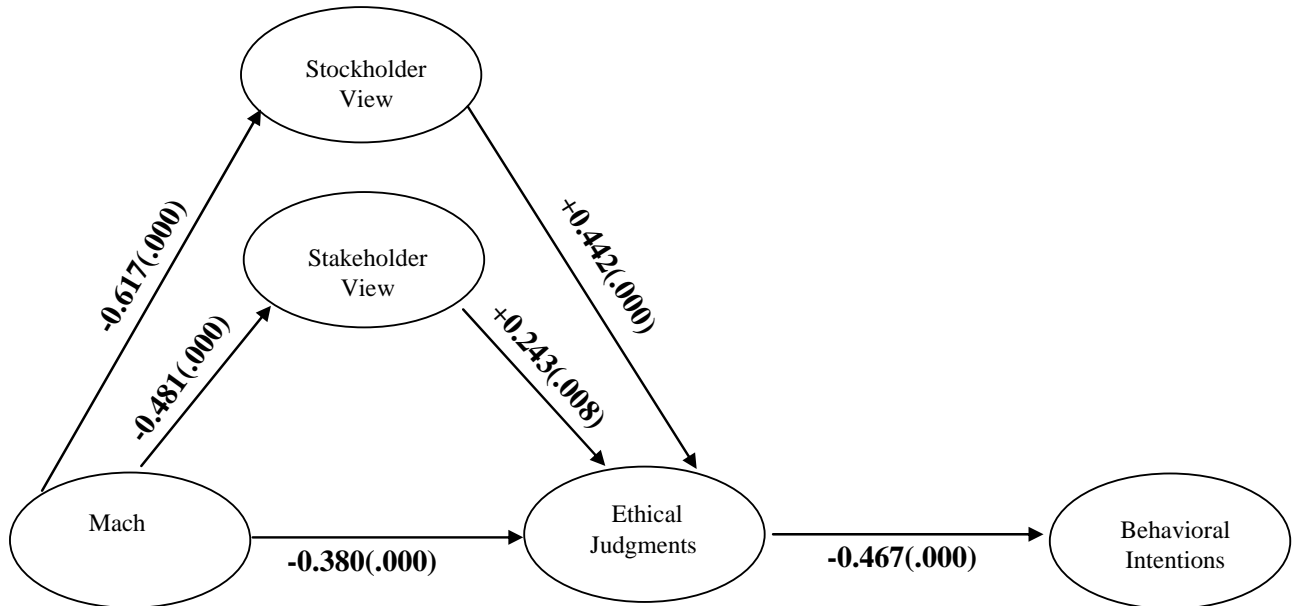


Figure 2
Empirical Models
Standardized Regression Coefficients (Significance)

Scenario A:



Scenario B:

