Report on the Grant Outcomes for the 2017/18 AFAANZ Research Fund on the Project titled:

"Unethical Culture and Tax Aggressiveness: Evidence from Foreign Bribery"

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Updated Project Summary (500 words) including any variations between the project undertaken and the original application

Prior research shows that several dimensions of corporate culture affect corporate behaviour and or policies (e.g., Cronqvist et al. 2007; Frank et al. 2011; Davidson et al 2015); however, there is very little evidence regarding the association between corporate ethics and tax aggressiveness in spite of the growing concerns on some companies' aggressive tax policies. Our study examines whether unethical corporate culture, proxied by the incidence of bribery of foreign officials, is associated with tax aggressiveness.

Whether tax aggressiveness constitutes unethical behaviour or is a justifiable means of maximising returns to investors has long challenged public policy and regulators. Recent sanctions imposed by the European Commission and boycotts by angry protesters towards some giant companies' tax aggressive behaviour has further inflamed the debate on whether or not tax aggressiveness reflect companies' ethical value. Yet, surprisingly little empirical evidence exists about this issue. Two papers (Hoi et al. 2013; Davis et al. 2016) related to this topic explore the association between corporate social responsibility (CSR) and tax aggressiveness. However, relying on the assumption that social ratings/scores are correlated with the firm's beliefs concerning CSR, they find opposite results. There might be two reasons for their inconsistent findings. First, CSR ratings/scores is not a clean indicator for corporate culture because assessing social performance can be messy. As Semenova and Hassel (2015) and Halbritter and Dorfleitner (2015) find that the concepts of social responsibility in several proprietary databases, including the ones used in Hoi et al. 2013 and Davis et al. 2016, are non-consistent and don't converge. In addition, investigating the overall ESG score or some particular pillars may yield different results (Semenova and Hassel, 2015; Halbritter and Dorfleitner, 2015). Second, because corporate social responsibility disclosure can derive from either shared beliefs within a firm, and thus representing corporate culture, or a risk-management strategy, which may be purposely used to manage the reputational effects of negative events such as tax protest, these studies offer very limited inferences regarding the association between corporate culture and tax aggressiveness.

In contrast, foreign bribery that is detected and punished by regulators provides a clear indication of unethical culture. Foreign bribery, even routine bribery in some countries with high tolerance in bribery is unethical because it undermines market efficiency and predictability, and then denies people their right to a minimal standard of living (Donaldson, 1996). When a firm seeks to secure or retain a business project in a foreign country with bribery, it is not only unethical but also illegal. Since 1977, the Foreign Corrupt Practices Act prohibits companies and their supervisors from attempting to influence foreign officials via personal payments or other rewards. The enforcement actions undertaken since then are searchable on the website of the Securities and Exchange Commission (SEC), and thus creates the incidence of enforcement actions regarding foreign bribery actions publicly observable. Manually collecting data for foreign bribery, as a proxy for an unethical culture, we are the first to directly examine the association between corporate ethics and tax aggressiveness.

We contribute to literature that aims to understand the influence of corporate culture on corporate policy. It adds a line to interpreting firms' aggressive tax behaviour. The evidence from this study is also helpful for regulators considering whether or not their penalty on tax aggressiveness is appropriate when they are trying to limit the scope for tax aggressiveness. It also helps investors, especially socially responsible fund managers, to revaluate firms' social responsibilities regarding their tax aggressiveness.

Funds Granted

$5,000

Detailed Report on Expenditure of Funds against Budget Items, with variations explained

All fund was spent on employing a Research Assistant as per the application. Our finance team is preparing a detailed financial acquittal statement as 30 Nov 2018 per the University's policy and procedure, and the statement needs to be certified by us and the Manger of the Research Financial Adversary team, the process will take about a month. We believe this is ok as per the AFAANZ funding guideline, a financial report is required within 60 days (e.g. prior to 30 Jan 2019) of project completion. However, please feel free to contact us if that is not the case.

I hereby attach a brief report on the expenditure. The overspent shown in the exhibit was recovered by our school research fund.

Report Id: Z0368092 V2.0	The Australian National University	Run Date: 29/11/18
Operator ID: U4586158	**SPF Financial Management Report**	Run Time: 09:56:13
Scope: Z0368092 - SPF Financial Management Repor	As of Date: 30/11/2018	ANU20556 62040 S 52.xls
Layout ID: ANU20556.xnv	Fund Code: S - Special Purpose Funds Department 62040 - Research School of Accounting Project: 52 - AFAANZ - Unethical Culture and Tax Agressiveness: Evidence from Manager: - Xiu-ye Zhang	

	Movement for Period 11	Project Budget	Opening Balance	Year to Date Movement	Total (LTD Movement + Encumbrance)	Variation
Total Income						
Other Income	0.00	5,000.00	5,000.00	0.00	5,000.00	0.00
Total Income	0.00	5,000.00	5,000.00	0.00	5,000.00	0.00
Total Expenditure						
Salaries & Related Costs	1,485.25	5,000.00	0.00	5,448.17	5,200.63	(200.63)
Current Year Operating Resul	($1,485.25)	$0.00	$5,000.00	($5,448.17)	($200.63)	

Outcomes, for example, working papers, presentations and publications (give full details, including abstracts)

With the financial assistance of the research grant, we are finalising the working paper titled "Unethical Culture and Tax Aggressiveness: Evidence from Foreign Bribery".

Abstract

There are competing arguments and mixed prior evidence on whether firms that are aggressive in their tax behaviour manifest corporate ethics. Our research contributes to resolving this issue by examining the association between tax aggressiveness and the incidence of bribery of foreign officials. Constructed a database for foreign bribery cases which gathers and analyses filings that are published on the SEC and DOJ websites, as well as on the Public Access to Court Electronic Records service, we employ foreign bribery as a clear proxy for unethical culture. Relying on several proxies for tax aggressiveness to triangulate our evidence, we generally find that tax aggressive firms are more likely to bribe foreign officials. Moreover, we continue to find that tax aggressive firms are more likely to bribe foreign officials when match on propensity scores to ensure that the bribing and non-bribing fraud samples have very similar nontax characteristics.

Keywords: Foreign bribery; Tax Aggressiveness; Corporate ethics

Future Intentions for this Project (give full details)

a. Conference submissions

We intend to submit the working paper to 2019 AFAANZ Conference to be held in July in Brisbane for feedback.

b. Journal submissions

After incorporating comments from conferences and presentations, we intend to submit it to an ABDC A-rank journal. Given the research question we addressed, our target journal would be Journal of Business Ethics.

c. Grant applications

Currently, we have no intention to apply for additional grants for this project.

d. Projects

Based on the dataset we have constructed, we may further work on another project: "Do Executives Benefit from Foreign Bribery?".

Summary of Outcomes and Benefits

With the financial assistance from AFAANZ Research Grant, we were able to employ a research assistant to hand-collect unstructured data from enforcement actions initiated by the U.S. SEC from January 1, 1978 through June 2018. Since 1977, the enactment of the Foreign Corrupt Practices Act (FCPA) makes it unlawful for certain classes of individuals and companies to make or offer to make payments to foreign officials for the purpose of obtaining or retaining business. As of June 2018, the FCPA has led to a total of 536 SEC and DOJ enforcement actions, of which 192 are individual prosecutions and 344 are corporate enforcement actions. This dataset currently consists of 344 FCPA enforcement actions against companies that have been involved in FCPA related misconduct, with the earliest bribery period begins from 1968 and the latest bribery period ends on 2017. This financial support has greatly assisted the construction of the dataset for the working paper titled "Unethical Culture and Tax Aggressiveness: Evidence from Foreign Bribery".

This paper contributes to literature that aims to understand the influence of corporate culture on corporate policy. Since contracts are incomplete, corporate values can play a role in ameliorating the inefficiencies created by the imperfections in the contractual environment (Guiso et al. 2015). Culture is considered relevant because employees will face choices that cannot be properly regulated ex ante (O'Reilly 1989; Kreps 1990). Prior research shows that several dimensions of the corporate culture affect corporate behaviour and/or policies (e.g., Davidson et al 2015; Cronqvist et al. 2007; Frank et al. 2011). However, there is less evidence on the association between corporate culture and tax aggressiveness. This paper contributes to the understanding of the association between these two.

It also adds a line to interpreting firms' aggressive tax behaviour. Prior research on tax has investigated various measurements, determinants and consequences of tax avoidance.[1] For example, a wide range of firm-level factors, including firms' size (Zimmerman 1983; Gupta & Newberry 1997), profitability (Gupta & Newberry 1997; Richardson & Lanis 2007), governance structures (Desai & Dharmapala 2006), ownership structure (Desai & Dharmapala 2008; Chen et al. 2010), manager effects (Dyreng et al. 2010) and incentive compensation (Armstrong et al. 2009). However, Guiso et al. (2015) call for research into the role corporate culture can play in corporate performance and policy, which has not been examined the firms' decisions on corporate tax avoidance.

On the practical level, the evidence from this study is also helpful for regulators considering whether or not their penalty on tax aggressiveness is appropriate when they are trying to limit the scope for tax aggressiveness. It also helps investors, especially socially responsible fund managers, to revaluate firms' social responsibilities regarding their tax aggressiveness.

[1] Hanlon and Heitzman (2010) provide a comprehensive review of the tax avoidance literature.