CORPORATE SOCIAL RESPONSIBILITY, EXECUTIVE PAY, CORPORATE TAX AVOIDANCE AND FINANCIAL PERFORMANCE: THE MODERATING EFFECTS OF GOVERNANCE AND CULTURE

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Abstract

This thesis aims to explore the associations between Corporate Social Responsibility (CSR), executive pay, corporate tax avoidance and corporate financial performance in tourism-related firms. This is done through three papers, which focus on managers' behaviour and motivation in different aspects of corporate decisions, highlighting the possible effects of sectorial characteristics, particularly tourism sector characteristics, in shaping corporate decisions in these constructs.

The first paper examines the link between CSR and corporate tax avoidance, and the moderating effect of corporate governance and cultural values on this link. The main aim of this paper is to explore whether responsible tourism-related firms view tax payments as part of their social responsibility. Accordingly, research hypotheses were developed based on a multi-theoretical framework including insights from legitimacy, stakeholder and agency theories. Based on an international sample of tourism-related firms over the period 2010-2016, the findings of this paper reveal that tourism-related firms generally do not seem to perceive tax payments as part of their social responsibility; the results show a positive association between CSR and corporate tax avoidance. However, later evidence found that this positive association is driven mainly by less responsible and poorly governed firms, whereas highly responsible and well-governed firms showed a negative association for this link, suggesting a positive effect of corporate governance on the CSR-tax link. Further, the results show that cultural values, particularly individualism/collectivism, seem to affect the link between CSR and corporate tax avoidance. Generally, the results provide some evidence that sectorial characteristics might affect the CSR-tax link. These findings generally support the theoretical frameworks of legitimacy and stakeholder theories.

The second paper investigates the link between long-term executive pay and corporate tax avoidance, and the moderating effect of corporate governance and cultural values on this link. The main aim of this paper is to explore whether linking executive wealth to firm value motivates managers to engage in corporate tax avoidance as a tool for increasing firm value. A multi-theoretical framework based on managerial power, optimal contracting and agency theories was employed in developing the research hypotheses. Based on the international sample of tourism-related firms, the findings show a positive

association between long-term executive pay and corporate tax avoidance. However, extra analyses showed that this result is driven by poorly governed firms, whereas well-governed firms show no association, consistent with these firms being more likely to avoid the risks associated with engaging in tax avoidance. Further, the results show that cultural values are likely to affect the link between long-term executive pay and corporate tax avoidance. The findings provide evidence that sectorial characteristics, particularly the levels of financial and business risk, seem to affect the association between long-term executive pay and corporate tax avoidance. The findings generally provide evidence that supports managerial power and rent extraction theoretical frameworks.

The final paper explores the link between long-term executive pay and CSR, and the link between CSR and firm financial performance. Further, it examines the moderating effect of corporate governance and cultural values on these links. The main aim of this paper is to explore whether tying executive wealth to firm value motivates executives to engage in CSR as a tool for promoting long-term firm performance. It also aims to investigate whether engaging in CSR enhances firm financial performance. Accordingly, research hypotheses were developed based on a multi-theoretical framework, including insights from agency, stakeholder and stewardship theories. The results of this study show a positive impact of long-term executive pay on CSR among well-governed firms, but no significant association among poorly governed firms. Further, the findings show that CSR has a positive effect on subsequent firm financial performance among well-governed firms, but no significant association among poorly governed firms. The findings also show that cultural values seem to play a crucial role in the associations among long-term executive pay, CSR and firm financial performance. The findings seem to support the theoretical framework of agency theory and the notion that a strong corporate governance system can align managers' interests with those of shareholders.

The findings of this thesis are robust across different statistical techniques, different firm- and country-level control variables and alternative measurements. These findings suggest that long-term executive pay can be used as an effective tool in aligning managers' interests with those of both shareholders and stakeholders. These findings also suggest that tourism-related firms should be careful when designing executive compensation contracts, considering the cultural values of executives and the acceptable level of risk. Further,

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tourism-related firms are encouraged to strengthen their corporate governance systems and motivate their managers to engage in CSR as effective tools for enhancing firm financial performance.

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List of abbreviations

BAT	British American Tobacco
BCE	Barcelo Corporation Empresarial
BDIV	Board diversity
BDUAL	Board duality
BEXP	Board experience
BIND	Board independence
BMEET	Board meetings
BP	British Petroleum
BSIZE	Board size
CCOMM	Compensation committee
CORR	Corruption
CSR	Corporate social responsibility
DJSI	Dow Jones Sustainability Indices
EBIT	Earnings before interest and taxes
LTPAY	Long-term executive pay
EQUIT	Shareholders' equity
ETR	Effective Tax Rate
FSIZE	Firm size
GDP	Gross domestic product
IHRA	International Hotel and Restaurant Association
INDIV	Individualism
INFL	Inflation
LEV	Leverage
MV	Market value
OECD	Organisation for Economic Co-operation and Development
ORIE	Long term orientation
PLC	Public limited company
PPE	Property, plant and equipment
REIT	Real Estate Investment Trusts
RIGHTS	Shareholders' rights
ROIC	Return on invested capital
UNWTO	United Nations World Tourism Organization
WB	World Bank
WBCSD	The World Business Council for Sustainable Development
WTO	World Trade Organization
WTTC	World Travel and Tourism Council
WTTO	World Travel and Tourism Organization

Introductory Chapter

Recent decades have witnessed an increasing tendency for corporations to engage in tax avoidance behaviour (Col & Patel, 2019; Drake, Lusch, & Stekelberg, 2019; Guenther, Wilson, & Wu, 2019; Duan, Ding, Hou, & Zhang, 2018; Riedel, 2018). The "Panama Papers" and the "Paradise Papers", which were leaked in 2016 and 2017 respectively, show a huge number of corporations worldwide engaging intensively in tax avoidance behaviour (Leung, 2017; BBC, 2017; Clark, 2016). According to some estimates, between $10 and $32 trillion is invested tax-free in offshore financial centres (Henry, 2012; BBC, 2017). This behaviour results in huge losses for the host countries in forms of losing tax revenues of billions of dollars (Economist, 2013; Ambrosie, 2015). This in turn might undermine the ability of many countries to develop their infrastructure, provide public services and achieve planned economic growth rates.

This tendency of firms to avoid paying the fair share of tax raises questions around whether corporations view paying taxes as part of their responsibility towards society or as a burden that reduces the value for shareholders. In this regard, a considerable number of big corporations claim that they are socially responsible, while seeming to avoid paying their fair share of taxes. For example, Sculthorpe (2016) found that six of the ten biggest UK corporations did not pay any corporation taxes in 2014 despite reporting profits of around £30 billion. These corporations include prestigious firms like BP, Lloyds, Vodafone and AstraZeneca– each of which produces CSR reports showing how responsible they are.

Accordingly, there has been much attention on corporations' motivation for engaging in this behaviour, with a particular focus on the role of executives and their pay. One view is that managers engage in tax avoidance in order to maximise firm value. This is based on insights from agency theory and the optimal contracting approach, where linking managers' wealth to firm value might lead them to engage in tax avoidance behaviour in order to maximise firm profit and hence their own wealth. The other view is that managers engage in tax avoidance behaviour for rent extraction purposes (Desai & Dharmapala, 2006). This is based on managerial power and rent extraction theories (Dyreng, Hanlon, & Maydew, 2010), according to which managers are expected to

dominate executive pay arrangements, and therefore executive pay is expected to be weakly associated with firm performance and firm value.

Executives also have come under increasing scrutiny regarding their social responsibility. Particularly, their behaviour has been largely accused to be behind company collapses and financial crises (Deckop et al., 2006). This suggests that corporate social responsibility will not exist without socially responsible executives (Godos-Díez et al., 2011; Waldman et al., 2006). Accordingly, research has been conducted to find ways to motivate managers to be socially responsible. One proposed way is to create ties between executive pay and CSR (e.g., Maas, 2018; Mahoney & Thorn, 2006; Ji, 2015; Deckop et al., 2006). In this regard, empirical research has found that executive pay might be effectively used in motivating managers to achieve specific objectives, including financial and social ones (e.g., Maas, 2018; Bebchuk, Fried, & Walker, 2002; Mahoney & Thorn, 2006). In addition, some reports show that many big firms have started to create ties between executive compensation and CSR objectives (e.g., De Boer, 2013). However, there has been much debate around whether managers should treat CSR as an investment, i.e., to engage in it only if it has a positive net value (Borghesi, Houston, & Naranjo, 2014; Jian & Lee, 2015).

Distinct from other sectors, the tourism sector has a unique nature, which might strengthen the links between tourism-related firms and tax avoidance practices. For example, this sector is distinct with its mobility nature, which might allow tourism-related firms to establish reservation offices or hotels in tax haven countries without attracting attention (Ambrosie, 2016). Further, tourism-related firms might direct the money received from customers to bank accounts in tax havens (e.g., WB, 2010). In addition, the structure of costs in this sector permits different methods of corporate tax avoidance. For example, staff cost in hospitality companies is relatively high. Therefore, firms might engage in tax avoidance through reducing the taxable base on wages; reducing the cash pay in favour of tax-free benefits (Ambrosie, 2015). Likewise, the distinct nature of this sector might strengthen the links between tourism-related firms and corporate social responsibility. This sector might have positive impact on local economies through job creation and contribution to GDP. However, this sector might have negative impact on the economy, society and the environment (Dodds & Kuehnel, 2010; Agarwal, 2002; Kasim, 2006; Manente, Minghetti,

& Mingotto, 2012). Examples of these effects are: the conflict between international hotel groups and local communities; labour conflicts, including poor working conditions and offering low pay; and the negative effects on local economies, including local companies that are unlikely to be able to compete with MNCs tourism-related firms.

In addition, this sector is typically associated with higher levels of financial and business risks due to its high sensitivity to economic changes (Guillet & Mattila, 2010). These might affect shareholders' and managers' behaviour towards tax avoidance and CSR. In addition, prior research suggests that different sectors require different corporate governance systems (Yoshikawa & Rasheed, 2009; Guillén, 2000). Indeed, the organisational structure of most tourism-related firms is different from companies in other sectors (Pechlaner, Raich, & Kofink, 2011). Accordingly, tourism-related firms require distinct corporate governance arrangements. Indeed, Al-Najjar (2017) finds that tourism-related firms have relatively smaller board sizes and shorter CEO tenure, among other differences that confirm the uniqueness of these firms in terms of corporate governance mechanisms. Therefore, this study responds to Rego and Wilson (2012), who call for investigating the influence of context on managers' tendency to engage in tax avoidance for rent extraction purposes. In addition, this study responds to calls for sectorial studies (e.g., Cohen & Yagil, 2010; Guillén, 2000) exploring the moderating effects of sectorial characteristics. Further, most prior empirical research on the links between CSR, corporate tax avoidance and executive pay are based on a US context. This study provides novel evidence on these links based on an international sample. This includes exploring the effects of country-level variables on the investigated links.

This thesis, therefore, includes three papers investigating the associations between CSR, executive pay and corporate tax avoidance, and the moderating effects of corporate governance and cultural values on these associations. These relations are modelled in tourism-related firms, considering the possible effects of the distinct characteristics of this sector on these links.

The first paper empirically investigates the association between CSR and corporate tax avoidance, and the moderating effects of corporate governance and cultural values on this link. The three central research questions this paper attempts to answer are: (i) Do tourism-related firms perceive tax payments as part of their social responsibility? (ii) Does

corporate governance moderate the link between CSR and corporate tax avoidance in tourism-related firms? (iii) Do cultural values moderate the link between CSR and corporate tax avoidance? While finding answers to these questions, this paper explores whether the distinct characteristics of tourism-related firms might affect these associations. In doing so, this paper employs a multi-theoretical framework in developing the hypotheses and interpreting the findings. This framework includes insights from legitimacy theory (e.g., Suchman, 1995) and stakeholder theory (e.g., Freeman, 1984), as well as insights from Friedman (1962, 1970). On the one hand, according to legitimacy theory (Suchman, 1995), firms are unlikely to engage in corporate tax avoidance, as this theory predicts that firms engage in CSR in order to gain the right to exist in society. This implies being ethical and doing the right thing, which arguably contradicts the idea of engaging in corporate tax avoidance. On the other hand, according to stakeholder theory (e.g., Freeman, 1984) and the model of Mitchell, Agle, and Wood (1997) that divides stakeholders into classes, managers may prioritise shareholders' demands over those of other stakeholder groups. This might include engaging in tax avoidance activities in order to maintain high returns to shareholders. Accordingly, this might affect the association between CSR and corporate tax avoidance. A third view is that firms perceive lower tax payments as part of their social responsibility (Davis, Guenther, Krull, & Williams, 2016a). This is based on the view that paying taxes limits firms' ability to grow and create jobs, which eventually undermines social welfare.

On the other hand, this paper expects that the characteristics of tourism-related firms might have different effects on the investigated links. For example, the high risks associated with this sector, its high profitability and its corporate governance models might affect the behaviour of both managers and shareholders, thus affecting the investigated links. In addition, this paper expects cultural values, especially individualism/collectivism and long-term/short-term orientation, to influence managers' behaviour and therefore affect the association between CSR and corporate tax avoidance.

Prior empirical literature on the association between CSR and corporate tax avoidance shows inconclusive results (e.g., Mao, 2018; Gulzar, Cherian, Sial, Badulescu, Thu, Badulescu, & Khuong, 2018; Mao & Wu, 2018; Zeng, 2018; Watson, 2015; Hoi, Wu, & Zhang, 2013; Lanis & Richardson, 2016; Davis et al., 2016a; Landry, Deslandes, &

Fortin, 2013). In addition, prior empirical research shows possible effects of corporate governance on each of CSR and corporate tax avoidance (e.g., Blouin, Jagolinzer, & Larcker, 2015; Harjoto & Jo, 2011; Desai & Dharmapala, 2006), where prior literature shows an absence of research that investigates the moderating effects of corporate governance on the link between them. In addition, prior research shows possible effects of cultural values on CSR (e.g., Dashdeleg & Chih, 2014; Ioannou & Serafeim, 2012) and on corporate tax avoidance (e.g., Bame-Aldred, Cullen, Martin, & Parboteeah, 2013; Tsakumis, Curatola, & Porcano, 2007), while no prior research investigates the possible moderating effects of cultural values on their link.

Accordingly, four hypotheses were developed to test the associations between CSR, corporate tax avoidance, corporate governance and cultural values. These hypotheses were examined based on an international sample of 139 tourism-related firms from 25 countries for the period 2010-2016. Different statistical techniques, including Ordinary Least Squares (OLS) regression analysis, lagged structure, and Two-Stage Least Squares (2SLS) regression analysis, were used.

The investigation of these hypotheses shows that tourism-related firms overall do not seem to view tax payments as part of their social responsibility. That is, the investigation reveals a positive association between CSR and corporate tax avoidance. However, further investigation finds that this positive association is driven by less responsible and poorly governed tourism-related firms, whereas highly responsible and well-governed tourism-related firms are associated with lower levels of corporate tax avoidance. Further, the findings suggest that corporate governance has a positive moderating effect on the association between CSR and corporate tax avoidance. In addition, there is some evidence of a moderating effect of cultural values, especially individualism, on the CSR-tax avoidance link. Overall, the investigation shows some evidence of possible effects of the distinct characteristics of tourism-related firms on the associations among CSR, corporate tax avoidance, corporate governance and cultural values.

The second paper of this thesis empirically investigates the association between long-term executive pay and corporate tax avoidance, and the moderating effects of corporate governance and cultural values on this link. This paper seeks to answer the

following three questions: (i) Does long-term executive pay affect corporate tax avoidance? (ii) Does corporate governance moderate the link between long-term executive pay and corporate tax avoidance? (iii) Do cultural values moderate the link between long-term executive pay and corporate tax avoidance? This paper also explores whether the distinct characteristics of tourism-related firms might affect the investigated links. To find answers to these questions, this paper employs a multi-theoretical framework in developing hypotheses and interpreting the results. This theoretical framework includes insights from different theories including agency, optimal contracting, managerial power and rent extraction theories. Accordingly, long-term executive pay is expected to have links with corporate tax avoidance. That is, long-term executive pay ties executive wealth to firm value. Accordingly, on the one hand, based on optimal contracting theory, the use of long-term executive pay might motivate managers to engage in corporate tax avoidance to maximise firm value and hence their own wealth. On the other hand, according to managerial power and rent extraction theories, managers might exploit corporate tax avoidance practices by designing corporate decisions in a complicated way that allows them to extract rents. Also, these theories expect that managers will dominate pay arrangements. Consequently, this might weaken the association between executive compensation and tax avoidance. In addition, this paper also expects that the characteristics of tourism-related firms might have different effects on the above discussed links. In addition, this paper predicts that cultural values affect managers' behaviour and therefore influence the association between long-term executive pay and corporate tax avoidance.

Prior empirical literature in this area shows inconclusive results (e.g., Hansen, Lopez, & Reitenga, 2017; Armstrong, Blouin, Jagolinzer, & Larcker, 2015; Dyreng et al., 2010; Gaertner, 2014; Desai & Dharmapala, 2006; Dyreng et al., 2010; Rego & Wilson, 2012). In addition, prior literature shows inconclusive results for the effects of corporate governance on the association between executive pay and corporate tax avoidance (e.g., Desai & Dharmapala, 2006; Armstrong et al., 2015), as well as for the effects of cultural values on these constructs (e.g., Pennings, 1993; Conyon & Schwalbach, 2000; Tosi & Greckhamer, 2004; Bame-Aldred, Cullen, Martin, & Parboteeah, 2013; Tsakumis, Curatola, & Porcano, 2007).

Accordingly, four hypotheses were developed to test the links among long-term executive pay, corporate tax avoidance, corporate governance and cultural values. A number of statistical techniques were used in examining these hypotheses, including OLS regression analysis and 2SLS regression analysis. In addition, lagged structure technique and alternative measurements of corporate tax avoidance were employed. This was based on an international sample of 117 tourism-related firms over the period 2010-2016. The results of testing these hypotheses show a general positive association between long-term executive pay and corporate tax avoidance. However, they also show that this positive association is driven by poorly governed tourism-related firms, whereas well-governed tourism firms seem to limit managers' ability to engage in tax avoidance in order to avoid bearing higher risks. Further, the results show that cultural values might influence the association between long-term executive pay and corporate tax avoidance. Overall, the results provide some evidence that the distinct characteristics of tourism-related firms might affect the associations among long-term executive pay, corporate tax avoidance, corporate governance and cultural values.

The third paper empirically examines the associations between CSR, long-term executive pay and financial performance. In addition, it investigates the moderating effects of corporate governance and cultural values on the links between these. Accordingly, there are four research questions this paper attempts to answer: (i) Does linking executive pay to firm value motivate executives to engage in CSR? (ii) Does engaging in CSR enhance firm financial performance? (iii) Does corporate governance moderate the links between long-term executive pay, CSR and firm financial performance? (iv) Do cultural values moderate the links between long-term executive pay, CSR and financial performance? To answer these questions, a multi-theoretical framework is used to develop the hypotheses and interpret the results. This theoretical framework includes insights from agency, stewardship and stakeholder theories. Agency theory expects that managers will direct corporate decisions for their own benefits, without being influenced by social norms (Fama & Jensen, 1983; Baiman, 1982; Magill & Quinzii, 2002; Mahoney & Thorne, 2005). Accordingly, managers are expected to engage in CSR only if they benefit from these activities. Therefore, linking their pay to long-term performance might lead them to engage in CSR activities, if they perceive these activities as profitable. On the other hand, these

long-term incentives might lead managers to prefer to engage in projects that have a direct influence on profitability, therefore neglecting CSR activities. Stewardship and stakeholder theories presume that managers are generally good stewards and do the right thing, including considering the needs of different stakeholders. This implies that managers might engage in CSR because it is the right thing to do, and regardless of whether their pay is linked to long-term performance. Similarly, this paper expects possible impacts of the characteristics of tourism-related firms on the above discussed links. In addition, this paper expects cultural values to impact managers' behaviour and therefore to affect the associations between long-term executive pay, CSR and financial performance.

Prior empirical literature on the association between CSR and executive pay shows mixed results (e.g., Ikram, Li, & Minor, 2017; Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Ji, 2015; Deckop et al., 2006; McGuire et al., 2003). In addition, corporate governance was reported to have different effects on this association (e.g., Jian and Lee, 2015; Hong et al., 2016; McGuire et al., 2003). Furthermore, there are mixed results on the link between CSR and firm financial performance (e.g., Hasan, Kobeissi, Liu, & Wang, 2018; Collett Miles & Miles, 2013; Inoue & Lee, 2011; Saeidi, Sofian, Saeidi, Saeidi, & Saaeidi, 2015). Further, prior literature shows effects of cultural values on each of CSR and executive pay (e.g., Meadows, 2017; Peng, Dashdeleg, & Chih, 2014; Pennings, 1993; Conyon & Schwalbach, 2000; Tosi & Greckhamer, 2004; Ho, Wang, & Vitell, 2012; Ioannou & Serafeim, 2012). Accordingly, nine hypotheses were developed to address the associations among long-term executive pay, CSR, financial performance, corporate governance and cultural values. These hypotheses were tested using OLS and 2SLS regression analyses based on an international sample of 117 tourism-related firms over the period 2010-2016. The results of this paper show no significant association between long-term executive pay and CSR in tourism-related firms. However, a positive association between these was found among well-governed firms, whereas no significant association was found among poorly governed firms. In addition, the results reveal a positive association between CSR and corporate financial performance among well-governed tourism-related firms but a weak association among poorly governed firms. Further, the results show that cultural values might influence the links among long-term executive pay, CSR and corporate financial performance.

Paper 1

Corporate Social Responsibility and Corporate Tax Avoidance: The Effects of Governance and Culture

Abstract

This paper investigates the association between CSR and corporate tax avoidance, and the moderating effect of corporate governance and cultural values on this link in a unique setting. The main aim of this paper is to explore whether responsible tourism-related firms perceive tax payments as part of their social responsibility. Based on an international sample of 139 tourism-related firms over the period 2010-2016, the results of this paper show a positive association between CSR and corporate tax avoidance, with later evidence indicating that this result is driven by less responsible and poorly governed firms. Further, highly responsible and well-governed firms show a negative association for this link, suggesting that these firms seem to view tax payments as part of their social responsibility. Further, the findings provide some evidence that cultural values seem to affect the CSR-corporate tax avoidance link. These findings are robust across different statistical techniques and alternative measurements. These findings seem to support the multi-theoretical framework of legitimacy and stakeholder theories. This paper has important implications for tourism-related firms, regulators, governments, and key players in the tourism sector.

Keywords: *CSR; corporate tax avoidance; corporate governance; stakeholder theory; legitimacy theory; culture; tourism-related firms.*

1. Introduction

This study investigates the central question of whether firms perceive tax payments as part of their social responsibility, and the moderating effect of corporate governance and cultural values on this link. Specifically, this study models these relationships in a new setting, examining the effect of unique characteristics of firms operating in the tourism sector on these links. Using an international sample of tourism-related firms, this paper provides evidence generally showing a positive association between CSR and corporate tax avoidance. Further, it provides new evidence that this positive association is driven by less responsible and poorly governed firms, whereas highly responsible and well-governed firms show a negative association. It also provides new evidence that cultural values moderate the association between CSR and corporate tax avoidance in tourism-related firms.

Paying their fair share of tax is arguably one of the main responsibilities of corporations to contribute to the sustainability of the society in which they operate. However, the growing number of cases in which firms seem to avoid paying their fair share of tax increases concerns over whether corporations view paying taxes as an act of responsibility towards society or as a burden that diminishes the value for shareholders. For example, Sculthorpe (2016) reports that six out of the ten biggest UK firms paid zero corporation tax for 2014, despite reporting profits of around £30 billion. These include prestigious firms such as Shell, Lloyds, Vodafone, BAT, AstraZeneca and BP. Similarly, Sahadi (2016) reports that nearly 20 percent of US large firms that showed profits in their 2012 financial reports paid zero US corporate income tax. In addition, in the tourism sector, Carnival, which is registered in the UK, paid taxes of only one percent of its pre-tax profits (Ambrosie, 2015). These concerns have recently been fuelled by the massive leaks of the so-called 'Panama Papers' in 2016 and the 'Paradise Papers' in 2017. These show that approximately $10 trillion is held in offshore financial centres (tax havens) by thousands of companies for corporate tax avoidance purposes (BBC, 2017).

The unique nature of the tourism sector might strengthen the links between companies operating in this sector and tax havens. For example, the mobility nature of this sector allows tourism-related firms to establish reservation offices or hotels in tax haven countries without attracting attention (Ambrosie, 2016). In addition, international tourism-

related firms can direct proceeds received from customers to tax-free bank accounts in tax haven countries. For example, a study conducted by the World Bank (WB) showed that once a European tourist makes a reservation to a destination in Kenya through a European operator, 80 percent, on average, of the value charged is channelled to an offshore tax-free bank account, and only 20 percent is allocated to the hotel in Kenya, which is also owned by that integrated tour operator (WB, 2010). This hotel therefore cannot cover its costs, and in turn reports losses, which eventually leads the hotel to pay zero tax to the Kenyan government. In addition, Ambrosie (2016) reports that Cancun hotel of Mexico established a reservation centre in the US, by which it could channel 30 percent of reservations proceeds to a bank account in the Cayman Islands (tax haven). It is interesting that most companies, including tourism-related ones, produce CSR reports to show their social and environmental responsibility. This raises the question of whether firms perceive tax payments as a responsibility towards society or a burden that hurts the firm value.

On the other hand, the unique characteristics of tourism-related firms may influence the links among CSR, corporate tax avoidance and corporate governance. For example, the ratio of Earnings Before Interest and Taxes (EBIT) to revenue is generally higher in this sector than others (Ambrosie, 2015). However, this sector is also distinct because of its high sensitivity to economic changes and because it is capital intensive, which increases financial and business risks (Guillet & Mattila, 2010). Therefore, investors in this sector might pressure managers to get high returns, which could push managers to engage in corporate tax avoidance. Furthermore, prior research suggests that different industries need different corporate governance systems (Yoshikawa & Rasheed, 2009; Guillén, 2000). This might be important in the tourism sector, as most tourism-related firms have different organisational structures than other firms (Pechlaner et al., 2011). These structures require different frameworks in terms of responsibilities distribution and control. This, in turn, might affect corporate governance arrangements in this sector and therefore may affect the investigated links of this study.

The link between CSR and corporate tax avoidance might be interpreted based on a multi-theoretical framework. On the one hand, legitimacy theory (Suchman, 1995) predicts that firms engage in CSR in order to gain the right to exist in society. This implies being ethical and doing the right thing, which arguably contradicts engaging in corporate

tax avoidance. Accordingly, a negative association is expected between CSR and corporate tax avoidance based on this framework. On the other hand, stakeholder theory (Freeman, 1984) argues that corporate responsibility goes beyond satisfying shareholders needs to include other stakeholders who affect or are affected by firms' activities. Specifically, different stakeholders have different needs; some of these needs contradict one another. In this sense, shareholders generally seek high profit, whereas other stakeholders might prioritise corporate social responsibility. Accordingly, Mitchell, Agle, and Wood (1997) provide a model that divides stakeholder groups into classes, with shareholders the most salient. Thus, managers may prioritise shareholders' demands over those of other stakeholder groups. This might include engaging in corporate tax avoidance in order to maintain high returns to shareholders. This theoretical framework might explain the positive association between CSR and corporate tax avoidance. This might be through engaging in CSR in order to remain legitimate in the society and to respond to the pressure of non-shareholder stakeholders, while simultaneously engaging in corporate tax avoidance in order to fund CSR activities and maintain a high level of returns to shareholders.

Alternatively, some firms may hold the view that paying less tax is a kind of social responsibility (Davis, Guenther, Krull, & Williams, 2016a). The rationale behind this view is that paying less tax helps firms grow. Consequently, this might positively affect their ability to expand and create jobs, and therefore improve social welfare. For example, Intel (2013) states in their 2013 CSR report that they support tax policies that support innovative companies to compete globally. Further, they report that they might be negatively affected by the tax policies of host countries. A third argument on this link is based on Friedman (1962, 1970) and suggests no direct relationship between CSR and corporate tax avoidance, since Friedman argues that firms have no responsibility other than maximising shareholder wealth. Therefore, firms can only engage in CSR if it is profitable, which suggests no direct relationship between CSR and corporate tax avoidance in general.

Empirical investigation of this link shows inconclusive results. Watson (2015) finds a positive association between low levels of CSR engagement and corporate tax avoidance when pre-tax profit is low. However, this effect decreases when pre-tax profit is high, suggesting that firms pay less attention to the demands of non-shareholder

stakeholders when financial performance is weak. Similarly, Hoi, Wu and Zhang (2013) find that irresponsible firms are associated with higher levels of corporate tax avoidance. In the same vein, Lanis and Richardson (2016) find that more socially responsible firms are associated with lower levels of corporate tax avoidance. By contrast, Davis et al. (2016a) find that firms with high CSR scores avoid paying high tax. Similarly, Lanis and Richardson (2013) find a positive association between corporate tax avoidance and CSR disclosure. On the other hand, Landry, Deslandes and Fortin (2013) find both less and high socially responsible firms are associated with corporate tax avoidance. In addition, prior literature, based on agency theory, shows a possible influence of corporate governance mechanisms on each of CSR and corporate tax avoidance. For example, Armstrong, Blouin, Jagolinzer and Larcker (2015) find a positive association between board independence and low levels of corporate tax avoidance, but a negative association with high levels of corporate tax avoidance. On the other hand, Harjoto and Jo (2011) find a positive association between CSR and corporate governance. In addition, Desai and Dharmapala (2006) find an association between executive compensation and corporate tax avoidance.

Using an international sample of tourism-related firms, the findings of this study reveal that, overall, tourism-related firms do not seem to view tax payments as part of their social responsibility, since the study finds an overall positive relationship between CSR and corporate tax avoidance among tourism-related firms. This suggests that these firms engage in CSR in order to gain legitimacy, but simultaneously engage in corporate tax avoidance in order to fund CSR activities and maintain high returns to shareholders. However, further analysis shows that this positive association is driven by less responsible firms, whereas highly responsible firms are associated with lower levels of corporate tax avoidance. In addition, the findings of this study indicate that corporate governance has a positive effect on the link between CSR and corporate tax avoidance in tourism-related firms. Furthermore, the findings show some evidence of moderating effects of cultural values on the CSR-corporate tax avoidance link. It was found that tourism-related firms that are based in collectivistic cultures are more likely to recognise tax payments as part of their social responsibility compared to firms based in individualistic cultures. However,

long-term orientation as a cultural value does not seem to moderate the CSR-corporate tax avoidance link due to the distinct characteristics of tourism-related firms.

These results generally provide empirical support for the developed theoretical framework of legitimacy and stakeholder theories (Suchman, 1995; Freeman, 1984; Mitchell et al., 1997) as well as supporting findings from prior research (Preuss, 2010; Lanis & Richardson, 2013; Davis et al., 2016a; Hoi et al., 2013; Watson, 2015; Sari & Tjen, 2016). These findings also suggest that the distinct characteristics of tourism-related firms might affect the link between CSR and corporate tax avoidance, since the findings, particularly among less responsible firms, suggest that the high level of business and financial risks embedded in this sector might make shareholders more powerful. This in turn might pressure managers to engage in corporate tax avoidance as a way of funding CSR activities and therefore maintaining high returns to shareholders. However, the results also show that having a strong corporate governance system in place in this sector might undermine the power of shareholders, and thus put less pressure on managers to engage in corporate tax avoidance.

Accordingly, this paper contributes to the extant literature by responding to calls for sectorial studies (e.g., Cohen & Yagil, 2010; Guillén, 2000). Further, it draws on a developed theoretical framework combining legitimacy and stakeholder theories while providing new empirical evidence on the central question of whether tourism-related firms perceive tax payments as part of their social responsibility. Therefore, this study contributes to the extant literature in five ways. First, it contributes to the literature on the relationship between CSR and corporate tax avoidance by modelling this link in a new setting. In particular, it shows whether the unique characteristics of the tourism sector might affect this link. Second, it provides a developed theoretical framework linking legitimacy and stakeholder theories. Third, it contributes to tourism literature through bringing accounting-business construct into tourism research. Fourth, it provides empirical evidence on the moderating effect of corporate governance on the relationship between CSR and corporate tax avoidance. Finally, it provides new international evidence on the moderating effect of cultural values on the association between CSR and corporate tax avoidance.

The remainder of this paper is organised as follows. Section Two discusses the background of this study. Section Three illustrates the theoretical framework. Section four reviews empirical literature and develops hypotheses, whereas Section Five presents the research design. This is followed by empirical results and discussions illustrated in Section Six. Finally, Section Seven presents the conclusions and implications of this research.

2. Background

2.1. Corporate tax avoidance literature

The payment of taxes is very important, allowing governments to satisfy the basic needs of society. Accordingly, corporate tax is considered companies' contribution to society (Preuss, 2010). Therefore, corporate tax avoidance has attracted much attention over the last few decades (Dyreng, Hanlon, & Maydew, 2008). The peak was in 2016, when the so-called "Panama Papers", which were originally leaked in 2014, were made public (Clark, 2016; Leung, 2017). The Panama Papers include 11.5 million documents belonging to Mossack Fonseca, a Panamanian law firm. The documents include information about around 320,000 offshore companies. This was followed by another huge leak in November 2017, the so-called "Paradise Papers", including 13.4 million documents belonging to firms using offshore tax havens to avoid paying taxes (BBC, 2017). According to some estimates, $10 trillion is held in offshore financial centres (BBC, 2017). This sheds more light on companies' activities that aim at avoiding taxes. US Treasury Department officials have described corporate tax avoidance as the most serious compliance issue in the American tax system (Desai & Dharmapala, 2009a).

The literature shows a variety of terms used in this area to express the act of avoiding paying taxes, including: avoidance, planning, aggressiveness, sheltering, noncompliance and evasion. Broadly, Dyreng et al. (2008) define corporate tax avoidance as anything that reduces the corporate tax burden over a long time. On the other hand, Hanlon and Heitzman (2010) state that if tax avoidance can represent a continuum of strategies, and municipal bond investments represents one end, then terms such as "sheltering" and "evasion" would be close to the other end of the continuum. Accordingly, most studies use the term "tax avoidance" to refer to a reduction of a tax burden that is done through exploiting the loopholes of tax law provisions, whereas they use the term "tax evasion" to refer to a reduction of a tax burden that is done in illegal ways (e.g.

Gravelle, 2009; Weisbach, 2004; Fuest & Riedel, 2009). For example, when a multinational company establishes a factory in a low-tax jurisdiction instead of in the main country of its operations, this might be considered tax avoidance behaviour (Gravelle, 2009). On the other hand, hiding some taxable income, such as bank interest from a secret bank account in another country, can be considered tax evasion (Weisbach, 2004; Gravelle, 2009).

In this sense, Dyreng et al. (2008) stress that corporate tax avoidance does not necessarily imply improper behaviour, as many provisions of tax laws encourage, or at least allow, firms to reduce their corporate tax burden. In addition, there are areas where the tax law is unclear, especially for complex transactions. However, according to the purpose of this research and following Hanlon and Heitzman (2010) and Dyreng et al. (2008), this research defines corporate tax avoidance broadly as the explicit reduction of tax burden regardless of its legality. Although corporate tax avoidance results in increased cash flows and shareholder wealth (Hutchens, Rego, & Williams, 2019), when it is discovered (in case it is illegal) by tax authorities, it might result in penalties, therefore reducing shareholder wealth (Hanlon & Heitzman, 2010).

Corporations engage in tax avoidance in a number of ways. Tax havens are used as the basis of most tax avoidance techniques. The term "tax haven" is usually associated with countries or jurisdictions that have no or low tax rates on some income types, accompanied by other characteristics, such as bank secrecy, lack of transparency, lack of exchanging information, and no or easy requirements for gaining legal status (Gravelle, 2009). Consequently, corporations can use tax havens as a means of corporate tax avoidance through transferring taxed income from a high tax rate jurisdiction to a low tax rate jurisdiction (Rego, 2003). These tax havens result in losses of billions of dollars of tax revenue for the host countries that bear the infrastructures and the local resources that help companies in doing their business (Economist, 2013; Ambrosie, 2015). Henry (2012) estimates that between $21 and $32 trillion is invested tax-free as of 2010, whereas the BBC (2017) estimated it as around $10 trillion.

Corporate tax avoidance using tax havens might happen through a number of techniques. One common technique is transfer pricing, which is the price of goods and services that are transferred between two units of the same company (Hanlon & Heitzman, 2010). Accordingly, corporate tax may be avoided by reducing the prices of goods and

services that are transferred from a high tax jurisdiction unit to a low tax jurisdiction unit, but purchasing goods and services from it at high prices. This is done in order to recognise a higher (lower) proportion of profit in the low-tax (high-tax) jurisdiction. For example, Starbucks used transfer pricing to reduce taxable income in the UK by $200 million through buying coffee beans at a 20% mark-up from their affiliate in Switzerland, which charges less corporate tax than the UK (Neville, 2012). However, the general guidelines according to OECD (2017) recommend that prices between affiliates should be determined based on the arm's-length principle, which means identifying prices between affiliates based on the fair price that would have been used between unrelated parties.

However, some goods and services may not have counterparts, e.g., intangibles, such as patents (Fuest & Riedel, 2009). For example, for a new invention, it is difficult to identify the fair royalties that should be paid annually on an arm's-length basis. This is even harder in cases where the new invention is developed mutually by the parent and the affiliate. Therefore, multinational companies might recognise the new invention in the low-tax jurisdiction unit and make the high-tax jurisdiction unit pay high royalties to it (Gravelle, 2009). In the example of Starbucks, the UK division pays a 4.7 percent premium to the Dutch Starbucks division for rights to images and coffee recipes (Neville, 2012). The overall effect on Starbucks UK operations is that they paid only £8.5m in corporation taxes between 1998 and 2012, while making sales of £3bn cumulatively during the same period (Neville, 2012).

This transfer of intellectual property might result in another problem. That is, as tax havens are usually small countries with limited resources (Bartelsman & Beetsma, 2003), sometimes they are not desirable countries for manufacturing. This might lead multinational companies to contract a manufacturer in another country to produce the product instead of asking the parent company to do so, in order to avoid high tax burdens in the parent company's country (Gravelle, 2009). Another problem that might result from using unfair transfer prices is sacrificing an important tool that may be used in divisional performance measurement, internal control and compensating divisional managers (Baldenius, Melumad, & Reichelstein, 2004). However, Baldenius et al. (2004) suggest using modified transfer prices for the purposes of divisional performance measurement and

compensation, and/or compensating divisional managers based on the overall performance of the firm.

Another way of transferring profits to low-tax jurisdiction units is to shift debts to high-tax jurisdiction units. This might be done without affecting the overall debt level of the corporation, through borrowing more in the high-tax jurisdiction and less in the low-tax jurisdiction (Bartelsman & Beetsma, 2003). This will increase the deducted interest expense in the high-tax jurisdiction unit and therefore reduce the taxable profit, which in turn will reduce the total tax burden. However, some countries have introduced some rules in order to reduce this behaviour; for example limiting the deductible interest expense for taxation purposes, the so-called "thin capitalization" rule (Ambrosie, 2015). According to this rule, the allowed deductible interest expense in the US is that of the debt that does not exceed 150% of equity, and the interest itself should not exceed 50% of taxable income (Ambrosie, 2015; Gravelle, 2009).

Within this framework, hybrid entities (Johannesen, 2014; Gravelle, 2009) might also be used in tax avoidance. This is where an entity is recognised by one jurisdiction as a partnership but by another as a corporation. For example, a US subsidiary operating in a low-tax jurisdiction lends money to a subsidiary in a high-tax jurisdiction. The interest expense will be recognised if this high-tax jurisdiction recognises this subsidiary as a separate corporation (Gravelle, 2009). Another method that might be used in tax avoidance is cross-crediting for foreign tax credits. For example, multinational companies in the US can choose when to repatriate foreign income, and then companies can manage the realisation so that they pay less tax, or none. For example, this might be done through realising the income gained in jurisdictions that have lower tax rates than the US, at the same time as realising the income gained in jurisdictions that have higher tax rates than the US. This is done in order to use the excess of the latter to offset the tax due on the former (Gravelle, 2009).

2.2. CSR literature

CSR has attracted much attention worldwide due to today's complexity of firms' operations, which has led to increasing demands for enhanced transparency and corporate responsibility (Jamali, Safieddine, & Rabbath, 2008). That is, firms have been increasingly required to consider social norms and ethical responsibilities alongside economic and legal responsibilities (Carroll, 2000). The increased requirement is based on recognising firms as part of society, which they should therefore contribute to it (Jones, Comfort, & Hillier, 2005). However, the concept of CSR has been subject to much debate for a long time. The first major debate on CSR started in the 1950s, when corporations' ownership started to turn from individuals to shareholders (Crane, Matten, & Spence, 2014). The debate therefore has centred on whether companies should respond merely to the interests of shareholders or to the interests of all stakeholders (Crane et al., 2014). Friedman (1962, 1970) argues against the idea of engaging in CSR activities, describing it as "fundamentally subversive". He stresses that firms' only social responsibility is to engage in activities that can maximise profit for shareholders, and that responsibility towards the wider society lies with governments, not firms. Furthermore, Friedman (1970) argues that engaging in CSR is costly and wastes resources. This means that firms, by engaging in CSR, waste the wealth of their shareholders and work against their interests. Similarly, Henderson (2001) argues that CSR is "dangerous and wasteful". In addition, Karnani (2010) argues that managers, through sacrificing profit in favour of the public good, impose taxes on shareholders and arbitrarily decide how shareholders' money should be spent. Moreover, if they do so, they might lose their jobs and be replaced by other managers, who restore profit maximisation as the top priority (Karnani, 2010).

On the other hand, McGuire (1963) argues in favour of CSR, stating that firms' responsibility goes beyond economic and legal aspects to include certain responsibilities towards society. Furthermore, Crane et al. (2014) argue against Friedman's view (1970) that only governments have a responsibility towards society, as they argue that this view overlooks fundamental changes in the way societies are governed in the era of globalisation. This includes governments softening businesses regulations in order to attract investment, protect employment and preserve tax income. This has led companies to operate to lower societal and environmental standards, which in turn has led to a call for

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CSR. Similarly, OECD (2008, p. 11) highlights the important role that companies play alongside governments in economy, society and the environment. It states that "*the common aim of the governments adhering to the guidelines is to encourage the positive contributions that multinational enterprises can make to economic, environmental and social progress and to minimise the difficulties to which their various operations may give rise*". This positive contribution of companies was also stressed by The World Business Council for Sustainable Development (WBCSD, 2000, p. 10). It defines CSR as "*the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life*".

Carroll (1979), in a highly cited work, provides a model for CSR, identifying the main pillars of CSR and claiming that firms should fulfil them simultaneously. This includes four main responsibilities: economic responsibility (to be profitable, through providing good products at fair prices), legal responsibility (to comply with relevant laws), ethical responsibility (to be moral and to avoid being harmful), and discretionary responsibility (to do good to society regardless of whether this is profitable). However, these aspects are controversial. For example, Lantos (2001) highlights the need to differentiate between ethical and discretionary CSR. He argues that ethical responsibility is the mandatory minimum level of corporate responsibility, and he excludes the discretionary aspect, which he calls altruistic CSR, from the scope of corporate responsibility. He argues that altruistic CSR does not benefit firms and is irrelevant. Lantos (2001) adds that managers can, however, engage in CSR using their own money and on their own time. In addition, Lantos (2001) adds strategic CSR as another aspect of CSR. He states that strategic CSR is justifiable for both companies and society, as it aims to achieve financial benefits for firms through serving society.

The considerable disagreement among academics, managers, and other related parties, around what CSR really means, has resulted in a vast number of definitions of CSR over last few decades. However, most of these definitions centre on some common characteristics. Crane et al. (2014) introduce six main characteristics: (i) *voluntary*, which means that CSR activities are largely seen as voluntary activities that go beyond legal requirements; (ii) *managing externalities*, which might be done through controlling the

side effects of firms' economic decisions, such as pollution; (iii) *multiple stakeholder orientation*, such as customers, suppliers and local communities, as firms' survival depends on them; (iv) *alignment of social and economic responsibilities*; (v) *practice and values* that are related to social issues; and (vi) *beyond philanthropy*, which means that CSR should be included in firms' operations.

On the other hand, other scholars argue that CSR issues can be organised under four main headings: marketplace, workplace, environment and community (Jones et al., 2005). Further, these issues can be arguably organised under two main dimensions: internal and external (Commission of the European Communities, 2001; Jamali et al., 2008; Jones et al., 2005). The internal dimension addresses responsibilities towards internal stakeholders and within the company, including managing activities such as those related to skills and education, equal pay, diversity, labour rights, work conditions and equal opportunities (Jamali et al., 2008; Jones et al., 2005). The external dimension goes beyond the company to include external stakeholders, such as investors, customers, suppliers, partners and environmental concerns (Jones et al., 2005). This also includes managing activities like those related to providing good-quality products, considering ethical and environmental issues, and managing human rights over the supply chain (Jones et al., 2005).

Similarly, the benefits that CSR might bring to firms might be divided into internal and external ones (Orlitzky, Schmidt, & Rynes, 2003). Internally, CSR investments might pay off in the form of creating new competences, improving the work culture and developing human resources (Barney, 1991; Orlitzky et al., 2003), whereas the external benefits of CSR are argued to be mainly associated with firm performance and firm reputation (Orlitzky et al., 2003). That is, when firms communicate their responsible performance to external parties, this may improve their image with customers, suppliers and other stakeholders, thus creating competitive advantage (Orlitzky et al., 2003; Fombrun & Shanley, 1990). These external benefits, together with internal ones, may result in improved firm performance. However, it is argued that engaging in CSR activities is costly and requires the allocation of significant resources (Shahin & Zairi, 2007); therefore, the ultimate effect of CSR is still controversial.

2.3. Corporate tax avoidance, CSR and corporate governance in the tourism sector

The tourism sector is considered a crucial sector for the international economy. It has witnessed rapid growth since the 1950s to become one of the fastest-growing sectors in the international economy, representing 7% of the world's exports of goods and services and constituting 30% of international service exports, worth $1.5t (UNWTO, 2017). Specifically, the number of tourists multiplied about 50 times between 1950 and 2016, from 25 million tourists globally in 1950 to 1.18 billion tourists in 2016, accompanied by an increase in destinations earnings from $2 billion in 1950 to $1.22 trillion in 2016 (UNWTO, 2017). In addition, it is expected that this sector will have sustainable growth, reaching 1.8 billion tourists by 2030 (UNWTO, 2017). Furthermore, according to the World Travel and Tourism Council (WTTC, 2015), the tourism sector constitutes around 10% of the world's GDP, including its direct and indirect impacts. Accordingly, the tourism sector is one of the largest industries, creating jobs and contributing to sustainable development (Ambrosie, 2015; WTTO & IHRA, 1999). G20 leaders reported in 2012 that tourism is a vehicle for job creation, economic growth and development (G20, 2012).

Tourism can be defined as the activities of people traveling to places outside their usual residence and staying there for a period of time that does not exceed one consecutive year (UNWTO, 1998). This implies that tourists use traveling services (mostly flights) to get to destinations, where they require services, such as shelter, food and entertainment. Therefore, a number of sub-sectors constitute the supply chain of the tourism sector, including travel agencies, tour operators, travel guides, hotels, airlines, restaurants and entertainment providers.

The unique characteristics of these companies may allow them to engage in corporate tax avoidance in different ways. First, unlike other sectors, using tax havens in this sector does not attract much attention due to the mobility nature of this sector that allows firms to be located in different places. This happens, for example, through establishing reservation offices, hotels, restaurants or resorts in tax haven countries (Ambrosie, 2015), and through locating their headquarters in these countries. This is usually accompanied by using transfer pricing in order to move profits from subsidiaries operating in high-tax jurisdictions to tax haven counterparts. For example, Carnival PLC, which is a dually incorporated corporation registered in both the US and the UK, with

headquarters in Panama, paid UK tax of only one percent of pre-tax income, and it is estimated to have avoided paying around half a billion dollars in US taxes (Ambrosie, 2015; Klein, 2005). Furthermore, Barcelo Corporation Empresarial (BCE), which operates 105 hotels in 18 countries, with 32,547 rooms, and directs 685 travel agencies (BCE, 2015), made more than €1 trillion in sales revenue but had a profit of just €5 million, while reporting €3 million as tax losses; such status was repeated in the following years. In addition, the company shifted debts to high-tax jurisdictions in order to avoid taxes (Ambrosie, 2015). This led to huge interest expenses being deducted from their operating profit. For example, in 2011 the company reported €30m as operating profit, then deducted €27m interest and rent loss, leaving just €3m as taxable income. The situation was almost the same in 2012.

Second, the structure of costs and expenses in this sector permits different methods of corporate tax avoidance. For example, in hospitality companies, staff cost is relatively high, ranging between 45% and 49% of operating expenses. Therefore, corporate tax avoidance efforts in these firms may focus on reducing the taxable base on wages, through reducing the cash pay in favour of tax-free benefits, such as transportation, and through hiring via outsourcing (Ambrosie, 2015). Third, multinational firms in this sector can create affiliated Real Estate Investment Trusts (REIT), contracting them to construct commercial real estate like hotels. For example, in order to get tax benefits, Marriott hotel group converted Host Marriott to a REIT and created another affiliated company, "Barcelo Crestline Corporation" (BCC), as part of restructuring the Marriott group. Then, Marriott hotel group provided several contracts to these companies, which resulted in huge overall tax benefits (Ambrosie, 2015).

Likewise, distinct characteristics of tourism-related firms affect the nature of the CSR framework in this sector. On the one hand, this sector can have a positive impact on local economies through job creation and contribution to GDP. On the other hand, it is argued that tourism might have a negative impact on the economy, society and the environment (Dodds & Kuehnel, 2010; Agarwal, 2002; Kasim, 2006; Manente, Minghetti, & Mingotto, 2012). One dimension is the conflict that might happen between international hotel groups and local communities. For example, local people in Costa Rica fought to stop the construction of a huge resort that belongs to an international group, because of its

negative impact on the water available for local agriculture (Gascon, 2012, cited in Ambrosie, 2015). The same happened in Mexico, when local people fought against the planned construction of a huge project of 27,000 rooms, because of the severe water shortage and its negative impact on marine life (CNN Mexico, 2011, cited in Ambrosie, 2015). Another affected area is labour conflicts. For example, Riu has been accused of having poor working conditions and offering low pay (Ambrosie, 2015). A third dimension is the negative effects on local economies. For example, it is difficult for local companies to compete with MNCs that have more opportunities to engage in corporate tax avoidance and can therefore provide competitive prices for their services (Ambrosie, 2015). However, this harmful impact of tourism might be mitigated if both destination operators and tourism industry operators adapt CSR concepts (Cowper-Smith & de Grosbois, 2011).

By contrast, some tourism-related firms show responsible behaviour towards society and the environment. For example, according to WTTO and IHRA (1999), some airlines and airports put great efforts into reducing pollution and noise. Further, some hotels engage in initiatives to reduce energy consumption and run disposal programmes. Moreover, WTTC argues that the hospitality sector is among the leaders in sustainability (Ambrosie, 2015). On the other hand, Dow Jones Sustainability Indices (DJSI) identify the hospitality sector as a sector lagging behind in terms of performance and reporting (Ambrosie, 2015). The same conclusion was reached by Herremans, Pyasi and Lu (2011). In addition, in a study conducted based on ten international hotel groups, Font, Walmsley, Cogotti, McCombes and Häusler (2012) find that the hotel sector is generally lagging behind other industries. In addition, there is a gap between the corporate systems related to CSR and actual performance in this sector. That is, the study found that eco-savings are the drivers of the environmental performance. Further, the study found that the drivers of labour policies are meeting the minimum wage and local legislation, rather than offering higher salaries. In addition, it was found that some companies engage in CSR as a form of greenwashing, which means producing glossy CSR reports claiming responsible performance while in fact doing little or even nothing. For example, it was found that BP is guilty regarding the major oil spill in the Gulf of Mexico that caused severe environmental damage, despite, just before this, DJSI reported that the company was behaving in a responsible way.

Due to the harmful consequences of social irresponsibility, including tax avoidance practices that might be adopted by tourism-related firms, there have been efforts to ensure the sustainable development of this sector. These efforts started in 1996, when WTTC, WTO and the Earth Council jointly launched a sustainable development programme for the tourism sector, to work as an action plan, introduced as "Agenda 21 for the Travel & Tourism Industry: Towards Environmentally Sustainable Development" (WTTO & IHRA, 1999). This was followed in 1994 by the "*Green Globe*" certificate, which was introduced by WTTC (WTTO & IHRA, 1999). This certification is awarded after a structured assessment of the sustainability performance of travel and tourism-related firms and their supply chain partners (Green Globe, 2017). According to the website of this certificate, it has been awarded to more than 530 firms in more than 90 countries. This certificate is given based on 44 core criteria of sustainable tourism, supported by over 380 indicators, which are reviewed and updated twice a year. Furthermore, WTO introduced ten guiding principles for tourism development, called "*Global Code of Ethics for Tourism (GCET)*" (Holcomb, Upchurch, & Okumus, 2007). These initiatives, together with others that were introduced for the same purpose, such as "*Initiative for Improving CSR in the Hospitality Sector*" and "*Green Hotels*", have put pressure on tourism-related firms to be more responsible, including paying their fair share of taxes.

On the other hand, prior literature shows that this sector behaves differently in terms of corporate governance. Oak and Iyengar (2009) find that tourism-related firms have weaker governance frameworks and are more likely to suffer from agency problems. Their study partially attributes this to the nature of finance and investment in these firms, which differs from other firms. This is due to the characteristics of the tourism sector, specifically its seasonality nature, which might limit the ability of these firms to grow. Furthermore, Pechlaner et al. (2011) report that most tourism-related firms have organisational structures which are flatter than those of firms in other sectors. This flat structure, which often consists of two main levels, i.e. managers and assistants, requires different frameworks in terms of responsibility distribution and control (Pechlaner et al., 2011), especially given that tourism-related firms are more likely to have a great deal of decentralisation in order to allow for more focus on customers (Pechlaner et al., 2011). However, it might be argued that multinational tourism-related firms and big tourism

groups, particularly vertically integrated ones, will normally have complicated corporate governance structures. To sum up, the distinct nature of the tourism sector in the areas of corporate tax avoidance, CSR and corporate governance highlights the importance of modelling them in this sector.

3. Theoretical framework

A number of studies have investigated the association between CSR and corporate tax avoidance (Lanis & Richardson, 2012, 2013, 2016; Sari & Tjen, 2016; Jones, Baker, & Lay, 2017; Hoi et al., 2013; Watson, 2015; Davis, Moore, & Rupert, 2016b; Preuss, 2010; Davis et al., 2016a; Landry et al., 2013), where this link has been interpreted based on a number of theories. This includes economic-based theories, such as agency theory, and socio-political theories, such as stakeholder and legitimacy theories. Although each of these theories provides a useful theoretical foundation in interpreting the CSR-tax avoidance link, each individual theory is limited in providing a comprehensive theoretical framework for this link (Jones et al., 2017; Davis et al., 2016b; Lanis & Richardson, 2013). This section briefly discusses the main theoretical foundations of the CSR-tax avoidance link and provides a multi-theoretical framework.

First, according to agency theory, the corporation is viewed narrowly as merely a relationship between managers and shareholders, where the firm's objective is to maximise profit for shareholders (Fama & Jensen, 1983; Lanis & Richardson, 2012; Letza, Sun, & Kirkbride, 2004). Accordingly, risk-neutral investors might expect managers to prioritise profit maximisation, including exploiting opportunities to reduce expenses, including engaging in tax avoidance behaviour (Hanlon & Heitzman, 2010). Thus, according to this theory, managers might treat tax payments as an expense among other expenses incurred by the firm, and therefore might try to minimise tax payments (Lanis & Richardson, 2012; Avi-Yonah, 2008). In addition, within this framework, firms do not have responsibilities other than maximising shareholder wealth (Friedman, 1962). Therefore, CSR activities will not be relevant to their business operations unless they are profitable. This suggests that agency theory has a limited ability to draw a clear link between CSR and corporate tax avoidance. In addition, agency theory does not take into consideration other stakeholders,

who affect and are affected by firms' operations, nor the legitimacy that firms need to have in order to gain their right to exist in society.

Second, according to legitimacy theory (Dowling & Pfeffer, 1975; Suchman, 1995), legitimacy is a general perception that the behaviour of an entity is desirable and proper within social norms and values. Legitimisation is the process through which an entity justifies its right to exist within a system or society (Maurer, 1971). Thus, legitimacy is the status resulting when a firm's value system is congruent with the value system of the larger system that the firm belongs to (Lindblom, 1994). Therefore, legitimacy theory concerns the extent to which firms' values are congruent with those of society, and whether firms' aims are harmonised with those of society (Lindblom, 1994; Suchman, 1995; Chen & Roberts, 2010). Therefore, gaining legitimacy justifies the existence of firms in the social system, which helps them in attracting resources (Parsons, 1960; Ashforth & Gibbs, 1990). Linking this to a broader view of the firm, as an influential entity that affect many parties, suggests that firms have obligations towards society. Thus, tax payments will be perceived as a duty to fund public services, including education, security, health services, etc. (Freedman, 2003). Accordingly, firms' attempts to reduce tax payments might be considered as unethical and illegitimate behaviour. Within this framework, Lindblom (1994) stresses that when a disparity exists between the two value systems, a firm's legitimacy is threatened. Thus, according to legitimacy theory, it is not sufficient for firms to just abide by legal systems and be economically efficient; they must also have social goals that meet society's expectations (Deegan, 2002). Accordingly, engaging in CSR is essential for firms to gain the legitimacy needed to exist in society. Engaging in CSR implies being ethical and doing the right thing (Carroll, 1991), which contradicts tax avoidance behaviour regardless of its legality. Therefore, according to legitimacy theory, a negative association is expected between CSR and corporate tax avoidance. A crucial issue, however, is that although legitimacy theory is interested in addressing the interaction between organisations and society (Chen & Roberts, 2010), it does not depict the environment as made up of different groups. This might limit its ability to interpret the association between CSR and tax avoidance in a holistic manner.

Third, stakeholder theory (Freeman, 1984; Clarkson, 1995; Mitchell et al., 1997; Chen & Roberts, 2010), despite overlapping with legitimacy theory, arguably concerns the

interaction between an organisation and the different groups that affect or are affected by its activities (Freeman, 1984). Yet, the literature shows a debate over "who or what really counts" as a stakeholder. This has resulted in a variety of definitions of stakeholder theory, ranging from narrow (e.g., Rhenman, 1968; Clarkson, 1995; Cornell & Shapiro, 1987) to broad (e.g., Freeman, 1984). Generally, narrow definitions usually depend on the idea that resources are scarce and that managers have limited time in which to deal with external constraints (Cornell & Shapiro, 1987; Mitchell et al., 1997). Therefore, there is a need to identify specific groups of concern to organisations. On the other hand, broader definitions are usually centred on the idea that organisations can affect or be affected by almost anyone. Therefore, comprehensively identifying stakeholders could help managers in understanding and responding to their needs, including those who do not have legitimate claims but can affect or be affected by the firm and its operations (Freeman, 1984; Mitchell et al., 1997). Within this framework, Donaldson and Preston (1995) assume that all parties who have legitimate interests in firms (shareholders, customers, employees, governments, etc.) engage in firms in order to get benefits in return, and they are equal and the firm should not prioritise one over another. Hence, the idea of CSR emerges in order to address the diverse demands and interests of all of these parties (Freeman, 2001), as well as to balance between the impact of each stakeholder group and its expectations (Freeman, 1984). By contrast, Mitchell et al. (1997) argue that stakeholder groups are unequal. Further, they provide a model that divides stakeholders into classes based on three attributes: power, legitimacy, and urgency,[1] where the model argues that the person or the group that does not have these attributes, in relation to the firm, is not considered as a stakeholder.

This division of stakeholders into classes is important for managers, particularly in light of their limited time to respond to the needs and expectations of different stakeholder groups (Mitchell et al., 1997). That is, managers might prioritise the first class, who have all three attributes, over the second and third classes. This might be linked to Carroll's (1991) CSR model, where the total CSR of a firm encompasses the simultaneous fulfilment of four aspects: economic, legal, ethical and philanthropic. This model is presented in a pyramid; its base is economic responsibility, and other responsibilities rest on it.

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[1] The study defines "power" as the extent to which a party has, or can get, access to exercise coercive, utilitarian or normative means, to impose its will in a relationship. It defines "urgency" as the degree to which stakeholders claim for immediate attention. For "legitimacy", the study adopts Suchman's (1995) definition, which is illustrated in the previous section. In addition, the study defines "salience" as the degree of priority that managers give to each stakeholder group.

Accordingly, at the bottom of the pyramid is economic responsibility, which should be fulfilled largely because it constitutes the base for other responsibilities. This responsibility is demanded mainly by shareholders, who constitute the most salient stakeholder group (Mitchell et al., 1997) due to having power, legitimacy and urgency attributes. Thus, managers might tend to pay close attention to their needs. At the top of Carroll's pyramid is philanthropic responsibility, which is related to voluntary and charitable activities intended to improve the quality of life of local communities. Claimers of this responsibility, according to Mitchell et al. (1997) model, have neither power nor urgency but only legitimacy. Consequently, managers do not face pressure to deal with this group of stakeholders.

Within this framework, it might be argued that economic responsibility, which constitutes the base of the CSR pyramid and the main demand of the most salient stakeholder group, may affect social and philanthropic performance. These come at the top of the pyramid and are demanded by less salient stakeholder groups. Accordingly, managers might prioritise economic performance in order to respond to the demands of the most salient group of stakeholders (shareholders). This might imply engaging in tax avoidance activities. At the same time, managers may give relatively lower priority to the demands of other stakeholder groups, including CSR activities. Thus, this framework cannot on its own provide a clear interpretation for the CSR- tax avoidance link, and therefore shows the limited ability of stakeholder theory alone to interpret the association between CSR and corporate tax avoidance.

Finally, stronger explanatory power might be gained through a multi-theoretical framework. Although according to Mitchell et al. (1997), managers may give lower priority to the demands of non-shareholder stakeholders (including CSR), managers might be pushed to engage in CSR by a desire to align the norms of the firm to those of society. This is in order to gain the right to exist (Suchman, 1995), which implies paying their fair share of tax as part of CSR activities. Accordingly, the negative association between CSR and corporate tax avoidance might be interpreted based on this framework. However, Mitchell et al. (1997) also expect that managers might give high priority to the most salient group of stakeholders (shareholders), whose demands also constitute the base of Carroll's (1991) CSR pyramid. This might lead managers to engage in tax avoidance to secure a

high level of economic performance and as a way of funding CSR activities. This framework therefore might help interpret the positive association between CSR and corporate tax avoidance. The positive association might also be interpreted based on the notion that firms view minimising tax payments as part of their CSR, since they may hold the view that tax payments limit the ability of firms to expand, finance R&D and create new jobs, which ultimately undermines social welfare (Davis et al., 2016a). On the other hand, agency theory suggests that there is no association between CSR and corporate tax avoidance, where managers have a duty to maximise profit, so they should engage in corporate tax avoidance but only engage in CSR activities if they are making profit (Friedman, 1962). This, therefore, suggests no direct association between CSR and corporate tax avoidance.

Tourism literature shows extensive use of stakeholder theory in interpreting a number of phenomena, and a relatively limited use of legitimacy and agency theories. For example, Theodoulidis, Diaz, Crotto and Rancati (2017) employ stakeholder theory in explaining the association between CSR and corporate financial performance. In addition, d'Angella and Go (2009) use stakeholder theory in explaining the relationship between destination management organisation and tourism-related firms, whereas García, Gómez and Molina (2012) employ it in addressing destination branding. Despite this use of stakeholder theory in tourism studies, there is still limited understanding of the role of stakeholders, particularly stakeholder salience, in areas of corporate tax avoidance and CSR. In addition, the relatively limited use of agency and legitimacy theories in tourism literature may be due to the scarcity of tourism research that address these constructs. This study is positioned to contribute to this theoretical framework in tourism literature.

4. Empirical literature review and hypotheses development

4.1. CSR and corporate tax avoidance

According to the multi-theoretical framework of legitimacy and stakeholder theories, different scenarios are possible for the relationship between CSR and corporate tax avoidance. It is expected, according to legitimacy theory (Suchman, 1995), that firms will engage in CSR seeking the right to exist in society, which implies behaving ethically (Carroll, 1991); this contradicts engaging in tax avoidance behaviour. Accordingly, a

negative association is expected between CSR and corporate tax avoidance. On the other hand, according to Mitchell et al.'s (1997) model of stakeholder salience, managers may tend to prioritise the demands of shareholders (profit maximisation), including by engaging in tax avoidance, particularly in case of the existence of powerful shareholders. In this scenario, managers might engage in CSR activities in order to gain legitimacy but at the same time engage in corporate tax avoidance in order to maintain high levels of returns to shareholders and to fund CSR activities. Thus, in this scenario, a positive association might be expected between CSR and corporate tax avoidance. In another scenario, based on traditional economic theories and Friedman's (1962) framework, firms will engage in CSR activities in the way, and to the extent, that they are profitable. Therefore, managers might use both CSR and corporate tax avoidance as separate tools in maximising corporate profit. In this scenario, no direct association is expected between CSR activities and corporate tax avoidance.

Empirical studies that investigate the relationship between CSR and corporate tax avoidance show mixed findings, which support the competing theoretical frameworks. Lanis and Richardson (2012) investigate the association between CSR disclosure and corporate tax avoidance using a sample of Australian corporations. They find that firms with higher levels of CSR disclosure are associated with lower levels of corporate tax avoidance, suggesting that socially responsible firms are unlikely to engage in corporate tax avoidance, particularly firms that have social investment commitments and CSR strategies. This is consistent with the findings of Sari and Tjen (2016), who investigate the same link but based on Indonesian firms. The study finds that higher levels of CSR disclosure are associated with lower levels of corporate tax avoidance. This is also consistent with the findings of Lanis and Richardson (2016), who examine the relation between CSR performance and corporate tax avoidance. That is, Lanis and Richardson (2016) reveal that firms with higher levels of CSR performance are associated with a lower likelihood of engaging in corporate tax avoidance. Jones et al. (2017) show a similar conclusion, where they find CSR is negatively associated with corporate tax avoidance. Hoi et al. (2013) find that irresponsible firms are likely to be associated with higher levels of corporate tax avoidance. Similarly, Watson (2015) finds a positive association between less socially responsible firms and corporate tax avoidance when pre-tax profit is low.

However, the association disappears when pre-tax profit is high, suggesting that firms pay less attention to the demands of non-shareholder stakeholders (CSR) when financial performance (the demand of shareholders) is weak. Within this framework, Davis et al. (2016b) investigate investors' perceptions of paying taxes and find that investors perceive firms that pay more taxes as more socially responsible, compared to firms that successfully manage taxes payments downward.

On the contrary, Preuss (2010), who investigates whether companies that engage in tax avoidance through setting their headquarters in tax havens have any claims of being socially responsible, finds that such companies indeed claim to be socially responsible. Furthermore, Lanis and Richardson (2013), using matched samples, find a positive relationship between corporate tax avoidance and CSR disclosure among Australian firms. Similarly, Davis et al. (2016a) find that firms with high CSR performance are associated with high levels of corporate tax avoidance. This was interpreted on the basis that managers might engage in CSR to offset negative perceptions associated with low levels of tax payments and/or that firms see tax payments as negatively affecting social welfare by limiting firms' ability to expand and create jobs. On the other hand, Landry et al. (2013) find that both more and less socially responsible firms are associated with corporate tax avoidance, suggesting that corporate tax avoidance is not necessarily aligned with CSR.

The distinct characteristics of tourism-related firms might influence the CSR-tax link. For example, profitability ratios are high, on average, in this sector (Ambrosie, 2015). This may influence the link between CSR and corporate tax avoidance, particularly because prior literature reports a moderating effect of pre-tax profit on the association between CSR and tax avoidance (Watson, 2015). In addition, this sector is distinct because of its high business and financial risks, due to its high sensitivity to economic changes, and by being a capital-intensive sector (Guillet & Mattila, 2010). These characteristics might pressure managers to engage in tax avoidance as a means of meeting shareholder expectations of high returns. Particularly, the mobility nature of this sector facilitates engaging in tax avoidance more than in other sectors. Thus, this study examines the following hypothesis:

Hypothesis 1: There is an association between CSR and corporate tax avoidance in tourism-related firms.

4.2. CSR and corporate tax avoidance: the effect of corporate governance

Prior literature, based on agency theory, shows that corporate governance plays a significant role in the areas of corporate tax avoidance and CSR. Executives are thought to play an important role in corporate tax avoidance. Dyreng, Hanlon and Maydew (2010) explore whether individual executives influence corporate tax avoidance, employing a large sample of 908 executives over a period of 15 years (1992-2006). The findings reveal that individual executives play a significant role in determining the tax avoidance behaviour of their firms. However, strong corporate governance systems seem to limit this behaviour. Lanis and Richardson (2011) examine the influence of the proportion of outside directors on tax avoidance behaviour. The findings reveal that the higher the proportion of outside directors on the board, the lower the level of tax avoidance behaviour that a firm engages in.

In another study, Lanis and Richardson (2016) find that the existence of outside directors on the board strengthens the negative association between CSR performance and tax avoidance behaviour. In addition, the findings of this study reveal that appointing more outside directors increases the reputation of the firm, through helping develop more advanced and comprehensive CSR polices. In addition, Armstrong et al. (2015) find a positive association between board independence and low levels of corporate tax avoidance, but a positive association with high levels of corporate tax avoidance. Furthermore, Desai and Dharmapala (2006) find an association between executive compensation and tax evasion.

On the other hand, some studies find a positive association between corporate governance and CSR performance. For example, Harjoto and Jo (2011) find a positive relationship between CSR and corporate governance mechanisms, including board independence and institutional ownership. In the tourism sector, most firms have different organisational structures that require different frameworks in terms of responsibility distribution and control. This is because tourism-related firms are more likely to have a great deal of decentralisation, in order to allow more focus on customers (Pechlaner et al., 2011). Therefore, corporate governance systems are likely to be different in this sector. For example, Al-Najjar (2017) finds that board independence has a weak impact as a monitoring tool in tourism-related firms in the UK. However, Jarboui, Guetat and

Boujelbène (2015) find a positive impact of board independence on firm performance based on a sample of hotels in Tunisia. In addition, Al-Najjar (2014) finds various effects of corporate governance arrangements on firm performance, based on a sample of tourism-related firms from five Middle Eastern countries. Specifically, the study reveals a positive impact of board independence and large boards on firm performance. These studies, therefore, show inconclusive results for the effects of corporate governance arrangements in tourism-related firms. These might affect the association between CSR and corporate tax avoidance in tourism-related firms. Thus, this study tests the following hypothesis:

Hypothesis 2: Corporate governance moderates the link between CSR and corporate tax avoidance in tourism-related firms.

4.3. CSR and corporate tax avoidance: the effect of cultural values

Prior research shows that cultural differences between countries might affect CSR strategies and decisions (e.g., Peng, Dashdeleg, & Chih, 2014; Ho, Wang, & Vitell, 2012; Ioannou & Serafeim, 2012; Waldman et al., 2006; Ringov & Zollo, 2007) as well as corporate tax decisions (Strielkowski & Čábelková, 2015; Tsakumis, Curatola, & Porcano, 2007; Alm & Torgler, 2006; Alm, Sanchez, & de Juan, 1995; Cummings, Martinez-Vazquez, McKee, & Torgler, 2004; Bame-Aldred, Cullen, Martin, & Parboteeah, 2013).

However, prior research has not investigated the effect of cultural variables on modelling the CSR-corporate tax avoidance link. Since managers are largely responsible for CSR strategies and decisions, Agle, Mitchell and Sonnenfeld (1999) call for research investigating factors that influence managers' behaviour in CSR decisions. Wood (1991) argues that personal and organisational characteristics are likely to affect managers' decisions regarding CSR. Waldman et al. (2006) highlight the role of societal cultural variables in constituting these personal and organisational characteristics. Javidan et al. (2005) argue that cultural values might help in understanding the directions and aspirations of a culture. Therefore, cultural values held by members constitute their beliefs towards operating an organisation (Waldman et al., 2006). Since decisions around CSR and tax are closely associated with managers' beliefs and behaviour, this study focuses on addressing the cultural values that are closely associated with personal behaviour.

4.3.1. The effects of individualism/collectivism

One of the most relevant cultural values in this context is individualism/collectivism. In addition to managers, this culture value is largely connected to the main groups associated with CSR decisions, including shareholders, stakeholders and the community (Waldman et al., 2006). Individualism describes the value of individual achievements, individual time and individual freedom, as compared to collective achievements, collective effort and loyalty to larger groups, such as organisations and societies (Ringov & Zollo, 2007). Accordingly, individualistic cultures prioritise personal self-interest and believe that personal interests are more important than those of the group, whereas collectivistic cultures prioritise the group's interests ahead of individual interests (Ho, Wang, & Vitell, 2012). Therefore, managers from collectivistic cultures are expected to be more interested in contributing to the society and larger groups that the firm is part of compared to managers in individualistic cultures. Managers in individualistic cultures who engage in CSR might engage in it as a form of greenwashing, not as a real responsibility. Thus, the study examines the following hypothesis:

Hypothesis 3: In individualistic cultures, CSR is positively associated with tax avoidance behaviour.

4.3.2. The effects of long-term/short-term orientation

Another cultural value that is closely associated with managers' behaviour around CSR and tax avoidance is long-term orientation, introduced by Hofstede (1991), since this value speaks to members' commitment to sustainability (Caprar & Neville, 2012). There is a trade-off for managers between long-term and short-term benefits, which might be decided based on their cultural backgrounds (Durach & Wiengarten, 2017). Therefore, managers from long-term orientation cultures are generally expected to establish long-term relationships with stakeholders, and will care more about the firm's long-term reputation. Recent evidence shows that CSR engagement is stronger in countries with long-term orientation than those with short-term orientation (Durach & Wiengarten, 2017). Thus, in countries with long-term orientation, it is expected that firms might engage in CSR from a sense of genuine responsibility, not as a form of greenwashing, and therefore a negative

association between CSR and corporate tax avoidance is expected in those countries. Accordingly, this study tests the following hypothesis:

> *Hypothesis 4: In long-term orientation cultures, CSR is negatively associated with tax avoidance behaviour.*

5. Research design

5.1. Data and sampling

The initial research sample, as shown in Panel A of Table 1.1, includes all tourism-related firms for which data are available in DataStream. The availability of CSR data in the Asset4 ESG database (a sub-database in DataStream) was the influential factor in determining sample size and sample period. The CSR data in this database is still growing, and thus is unavailable for many companies. The initial sample begins in 2010 due to the unavailability of a significant amount of data before 2010, while the latest data available at the time of data collection was from 2016. This led to a research sample period of 2010 to 2016.

Specifically, DataStream has data for 1,880 tourism-related firms worldwide, belonging to 110 countries. However, CSR data is available for only 147 tourism-related firms (approximately eight percent). Data on corporate tax avoidance, CG and control variables have also been collected from DataStream. Country-level data have been collected from international institutions' websites, including the World Bank (inflation data), IMF (GDP data), Hofstede Insights (cultural data), and Transparency International (corruption data). Another eight tourism-related firms have been excluded due to other missing data. Thus, the final sample comprises139 tourism-related firms belonging to 25 countries[2], for a seven-year period (2010-2016), constituting 973 firm-year observations. Despite the small size of the final sample compared to the initial one, it is still much higher than previous studies in this area (e.g., Lanis & Richardson, 2012). In addition, contrary to some existing research in this area that is based on one-year data, analysing seven-year data for the observed relationships results in higher-quality results.

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[2] Australia, Brazil, Canada, Chile, China, France, Germany, Greece, Hong Kong, Ireland, Italy Japan, Malaysia, New Zealand, Philippines, Singapore, South Africa, South Korea, Spain, Sweden, Taiwan, Thailand, Turkey, the UK, and the US.

Table 1.1: Sample selection procedures

Panel A: Sample selection	No.	
Total number of tourism-related firms available on DataStream	1,880	
Tourism-related firms that do not have CSR data available	(1,733)	
Tourism-related firms with incomplete other data apart from CSR	(8)	
Total sample	**139**	
Panel B: Classification of final sample by tourism sub-sectors	No.	%
Hospitality and travel	55	39.6
Entertainment	31	22.3
Airlines	29	20.9
Restaurants	24	17.2
Total sample	**139**	**100**
Firm year observations (2010-2016)	**973**	

Panel B of Table 1.1 illustrates the description of the final sample, classified by tourism sub-sectors. The majority of tourism-related firms included in the final sample belong to the hospitality and travel sub-sector, with approximately 39.6 percent, which mainly includes resorts, hotels, travel agencies and transportation other than airlines. Entertainment firms come second, with approximately 22.3 percent; this mainly includes companies operating in theatres and different gaming industries. Next, airline companies, including aviation companies and supporting companies, constitute approximately 20.9 percent of the final sample. Finally, restaurants, including cafes, constitute 17.2 percent of the sample.

5.2. Variables and measures

5.2.1. Dependent variable

The dependent variable of this study is corporate tax avoidance. Hanlon and Heitzman (2010) provide a review of tax avoidance measures used in the literature and recommend that the choice of a measure should depend on the research question. This study investigates the central question of whether firms perceive tax payments as part of their

social responsibility. Therefore, this study links CSR performance to tax avoidance, regardless of its legality. Accordingly, this study follows Hanlon and Heitzman (2010) and defines corporate tax avoidance broadly as the explicit reduction of tax burden. In this sense, Effective Tax Rate (ETR) has been widely used as a proxy of corporate tax avoidance and is the most frequently used measure in this research area (e.g., Chen, Chen, Cheng, & Shevlin, 2010; Lanis & Richardson, 2012; Huseynov & Klamm, 2012; Landry et al., 2013; Davis et al., 2016b; Jones et al., 2017).

However, methods of calculating ETR differ from one study to another. Although the denominator of ETR in most studies is pre-tax accounting income, studies use different numerators, mainly tax expense or cash tax paid. These ETRs are so-called "accounting ETR" and "cash ETR" respectively. On the other hand, some studies use long-run ETR, where the sum of cash tax paid (or tax expense) for a number of years is the numerator, while the sum of pre-tax income for the same years is the denominator (Dyreng et al., 2008; Davis et al., 2016a).

Cash ETR, despite being affected by deferral strategies, is criticised for not considering the changes in tax accounting accruals (Hanlon & Heitzman, 2010). Further, there might be mismatch between numerator and denominator if the tax paid in one year includes tax paid for earlier years (Hanlon & Heitzman, 2010). Therefore, this study employs tax expense as the numerator in calculating ETR. In addition, in order to improve the robustness of the empirical results, this study also uses long-term ETR in sensitivity analyses. Accordingly, ETR is calculated in this study as tax expense divided by pre-tax accounting income. Therefore, this measure relates corporate tax expense generated by taxable profit to the pre-tax accounting profit, and therefore reflects corporate tax avoidance practices to a great extent. That is, low effective tax rates reflect high levels of corporate tax avoidance and vice versa. This measure, therefore, catches tax reduction practices that result from a wide range of corporate tax avoidance techniques, regardless of their legality, which is aligned with the research question of this study.

5.2.2. Independent variable

The independent variable of this research is CSR performance. Prior literature shows a number of ways to measure this variable. Some studies develop CSR indices (e.g. Lanis & Richardson, 2012), while others use CSR indices provided by major databases, such as KLD, Asset4 ESG, Innovest, DJSI, Calvert Social Index, FTSE4Good and the Canadian Social Investment Database (e.g., Huseynov & Klamm, 2012; Davis et al., 2016a; Qiu, Shaukat, & Tharyan, 2016; Cheng, Ioannou, & Serafeim, 2014; Carbone, Moatti, & Vinzi, 2012; Peng, Dashdeleg, & Chih, 2014; Doh, Howton, Howton, & Siegel, 2010; Charlo, Moya, & Muñoz, 2015; Landry et al., 2013). CSR data availability in major databases seems to be a crucial factor for studies in identifying a way of measuring CSR performance. For example, the KLD database, which was launched in 1990, provides CSR data mainly for US firms. Accordingly, it might be more relevant to studies that are conducted based on the US context.[3] On the other hand, other databases provide data for companies around the world. For example, the Asset4 ESG database, which was launched in 2002, provides data for over 4,300 companies worldwide.[4]

As the international nature of this research requires measuring the CSR performance of tourism-related firms around the world, it follows a great deal of prior research (e.g. Qiu et al., 2016; Cheng et al., 2014; Lys, Naughton, & Wang, 2015) and measures CSR performance based on the CSR index provided by the Asset4 ESG database. Ribando and Bonne (2010) investigate the validity of the Asset4 ESG database and find it highly valid in measuring CSR performance.

The Asset4 ESG database provides four scores associated with CSR. These include economic, environmental, social and corporate governance scores. The database integrates over 750 data points with over 280 KPIs and structures them into 18 categories used in assessing the four CSR pillars. For example, three out of the 18 categories are used in assessing environmental performance, including resource reduction, emission reduction and product innovation.[5] Moreover, to compare companies around the world, the analysts of this database transform any data that is not up to standard to make it consistent with the other data.

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[3] http://3we057434eye2lrosr3dcshy.wpengine.netdna-cdn.com/wp-content/uploads/2018/03/KLD-on-WRDS.pdf
[4] Full details of this database can be accessed through https://www.thomsonreuters.com/content/dam/openweb/documents/pdf/tr-com-financial/fact-sheet/esg-data-fact-sheet.pdf
[5] The methodology used in calculating scores can be accessed through the link included in note 2.

This study constructs CSR scores based on three sub-scores provided by the Asset4 ESG database, including economic, environmental and social scores, since this study follows prior literature (Kim, Park, & Wier, 2012; Davis et al., 2016a) in excluding corporate governance scores from CSR index. This is because corporate governance is a separate variable in the accounting literature and has been separately linked to corporate tax avoidance (e.g. Armstrong et al., 2015).

5.2.3. Moderating and control variables

This study includes moderating variables, which are corporate governance (*CG*), individualism (*INDIV*) and long-term orientation (*ORIE*). In addition, this study includes firm-level control variables that prior research finds might have effects on corporate tax avoidance (Sari & Tjen, 2016; Landry et al., 2013; Davis et al., 2016a; Lanis & Richardson, 2016; Watson, 2015). These include firm size (*FSIZE*), board size (*BSIZE*), shareholder rights (*RIGHTS*), cash (*CASH*), property, plant and equipment (*PPE*), market value (*MV*), leverage (*LEV*) and shareholders' equity (*EQUIT*). In addition, because of the international scope of this research, it includes country-level controls that prior literature shows might have effects on links examined in this area on an international scale (e.g., Richardson, 2006). These include corruption level in the country (*CORR*), GDP growth of the country (*GDP*) and inflation rate (*INFL*).[6] The full definitions of these variables are presented in Table 1.2.

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[6] The original data collected include more country-level variables, but the correlation analysis showed high correlation between some of them, which lead to their exclusion.

Table 1.2: Variable definitions

Dependent Variable

ETR	=	tax expense in a year divided by the pre-tax accounting income of that year;
LRETR	=	sum of a firm's tax expense for seven years divided by the sum of pre-tax accounting income of the firm for the same seven years;

Independent Variable

CSR	=	the average of economic score, environmental score and social score provided by the Asset4 ESG database, where economic score is calculated through three categories, including client loyalty, performance and shareholder loyalty; environmental score is calculated through three categories, including resource reduction, emission reduction and product innovation; and social score is calculated through seven categories, including employment quality, health and safety, training and development, diversity, human rights, community, and product responsibility;

Moderating Variables

CG	=	the average of five categories including board structure, compensation policy, board functions, shareholders rights, and vision and strategy;
INDIV	=	loosely knit social framework in which individuals are expected to only take care of themselves and their immediate families;
ORIE	=	focusing on the future orientation, including the willingness to delay short-term material or social success in order to prepare for the future. If a society has this cultural perspective, it values persistence, perseverance, saving and adaptability;

Firm-level controls

FSIZE	=	log of total assets;
BSIZE	=	the total number of board members at the end of the fiscal year;
RIGHTS	=	1 if a firm is owned by a reference shareholder who has the majority of the voting rights, veto, power or golden share, and 0 otherwise;
CASH	=	money available for use in the normal operations of the company divided by lagged total assets;
PPE	=	property, plant and equipment divided by lagged total assets;
MV	=	log of (the share price multiplied by the number of ordinary shares in issue);
LEV	=	(long-term debt + short-term debt & current portion of long-term debt) / (Total capital + short-term debt & current portion of long-term debt);
EQUIT	=	the sum of preferred stock and common shareholders' equity divided by lagged total assets;

Country-level controls

CORR	=	the level of perfection towards the misuse of public power for private benefit;
GDP	=	the rate at which a country's gross domestic product changes from one year to another, where gross domestic product is the market value of all the goods and services produced in a country in a particular time period; and
INFL	=	the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

6. Empirical results and discussion

6.1. Descriptive statistics and bivariate analysis

Table 1.3 illustrates descriptive statistics of variables included in regression models. It shows that *ETR* ranges between a minimum of seven percent (tax credit) and a maximum of 60 percent, indicating a wide variation between companies in tax expenses expressed as a percentage of pre-tax income. This also shows that some companies in the sample have tax credits, which happens due to having net losses for taxation purposes. However, the average effective tax rate across the sample is 24 percent, which is close to the global average (Bunn, 2018). However, it is slightly lower than the ETR reported by studies conducted in this area but in other sectors. For example, Sari and Tjen (2016), Davis et al. (2016a), Watson (2015) and Jones et al. (2017), based on data from firms that belong to many sectors, report means of ETR of 31.3 percent, 26 percent 25.5 percent and 27.59 percent, respectively. This can be interpreted as tourism-related firms perhaps engaging in corporate tax avoidance more than other sectors.

Similarly, for CSR scores, Table 1.3 shows wide differences between companies. This ranges between a minimum of 9.9 percent and a maximum of 87.2 percent, with an average of 49.2 percent, indicating that the sample includes firms with very high CSR performance as well as firms with very low CSR performance. In addition, descriptive statistics of moderating variables (*CG*, *INDIV*, and *ORIE*), firm-level controls (*FSIZE*, *BSIZE*, *RIGHTS*, *CASH*, *PPE*, *MV*, *LEV* and *EQUIT*) and country-level controls (*CORR*, *GDP* and *INFL*) show wide differences, which implies that the sample has been properly selected and thus minimises the possibility of sample selection bias.

Table 1.3: Descriptive statistics of all variables for all 973 firm years

Variable	Mean	Median	Std. Dev.	Maximum	Minimum
Dependent Variable					
ETR	0.240	0.240	0.128	0.600	-0.070
Independent Variable					
CSR	0.492	0.489	0.224	0.872	0.099
Moderating Variables					
CG	0.543	0.633	0.293	0.913	0.025
INDIV	0.663	0.800	0.277	0.910	0.170
ORIE	0.489	0.495	0.238	1.000	0.210
Firm-level controls					
FSIZE	6.730	6.752	0.457	7.570	5.566
BSIZE	10.765	10.000	3.584	25.000	3.000
EQUIT	0.362	0.343	0.181	0.767	0.000
PPE	0.497	0.534	0.238	0.862	0.048
LEV	0.480	0.510	0.243	0.999	0.000
MV	3.579	3.543	0.412	4.491	2.743
CASH	0.078	0.053	0.068	0.298	0.009
RIGHTS	0.212	0.000	0.409	1.000	0.000
Country-level controls					
GDP	0.026	0.022	0.024	0.026	-0.091
INFL	0.018	0.016	0.016	0.090	-0.018
CORR	0.727	0.760	0.120	0.890	0.350

All continuous variables are winsorized at the 5th and 95th percentiles.
Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), corporate governance (*CG*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of variables used are provided in Table 1.2.

Table 1.4 illustrates the correlation matrix of variables included in regression models to test for multicollinearity. Apart from the expected high and significant correlation between *FSIZE* and *MV* (0.661**), *INDIV* and *ORIE* (-0.659**), and *LEV* and *EQUIT* (-0.559**), the correlations among variables, on average, are low, suggesting no multicollinearity problems exist. In line with prior studies (Preuss, 2010; Lanis & Richardson, 2013; Davis

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et al., 2016a), *CSR* is significant and negatively related to *ETR* (-0.097**), suggesting that firms with high CSR are likely to engage in high levels of corporate tax avoidance (low *ETR*). In addition, there is a positive and significant correlation between *BSIZE* and *ETR*, suggesting that firms with larger boards are more likely to avoid engaging in corporate tax avoidance. For moderating variables, Table 1.4 shows that *ORIE* correlates positively with *ETR*, indicating that firms operating in countries with high levels of long-term orientation are likely to pay tax at higher tax effective rates, implying that they are unlikely to engage in corporate tax avoidance. The table also shows a similar positive correlation between *INDIV* and *ETR*, but a negative correlation for country-level controls (*GDP*, *INFL* and *CORR*), indicating that country-level characteristics might affect tax avoidance behaviour, and in turn might affect the association between CSR and corporate tax avoidance.

Table 1.4: Pearson's correlation matrix of the variables for 973 firm years

Variable	ETR	CSR	INDIV	ORIE	FSIZE	BSIZE	EQUIT	PPE	LEV	MV	CASH	RIGHTS	GDP	INFL	CORR
ETR	1.00														
CSR	-0.097**	1.00													
INDIV	0.063*	0.182**	1.00												
ORIE	0.127**	-0.090**	-0.659**	1.00											
FSIZE	-0.079*	0.364**	-0.107**	0.259**	1.00										
BSIZE	0.103**	0.220**	-0.240**	0.389**	0.474**	1.00									
EQUIT	-0.079*	-0.153**	-0.180**	0.042	-0.236**	-0.176**	1.00								
PPE	-0.051	0.082*	-0.148**	0.306**	0.367**	0.273**	-0.173**	1.00							
LEV	0.005	0.082*	0.100**	-0.056	0.139**	0.064*	-0.559**	0.067*	1.00						
MV	-0.090**	0.262**	-0.059	0.085**	0.661**	0.313**	0.020	0.118**	0.010	1.00					
CASH	-0.080*	-0.198**	0.010	-0.159**	-0.311**	-0.264**	0.131**	-0.393**	-0.103**	-0.095**	1.00				
RIGHTS	-0.137**	-0.075*	-0.272**	-0.034	-0.008	0.017	0.123**	-0.077*	-0.068*	0.035	0.039	1.00			
GDP	-0.190**	-0.080*	-0.258**	-0.014	0.009	-0.107**	0.058	0.008	-0.019	0.060	0.036	0.143**	1.00		
INFL	-0.203**	-0.015	-0.180**	-0.108**	-0.102**	-0.171**	0.102**	-0.074*	-0.032	-0.110**	0.080*	0.286**	0.048	1.00	
CORR	-0.093**	0.023	0.494**	-0.088**	0.109**	-0.134**	-0.002	-0.024	0.020	0.116**	0.038	-0.192**	-0.180**	-0.169**	1.00

Notes: **and* denote correlation is significant at the 1% and 5% level (2-tailed) respectively (two-tailed tests). Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholder's equity (*EQUIT*), property, plant, and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of the variables are provided in Table 1.2.

6.2. Multivariate regression analyses

This study examines the association between CSR and corporate tax avoidance. Following prior research in this area (Lanis & Richardson, 2013; Hoi et al., 2013; Landry et al., 2013), this study employs OLS regression models to examine this link. The analysis begins with the basic OLS regression model specified as follows:

$$ETR_{it} = \propto_0 + \beta_1 CSR_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \qquad (1)$$

Where *ETR* is the proxy of corporate tax avoidance, *CSR* refers to the level of corporate social responsibility, *INDIV* refers to individualism culture, *ORIE* is long-term orientation culture and *CONTROLS* refers to control variables of the study, including *FSIZE*, *BSIZE*, *CASH*, *PPE*, *RIGHTS*, *MV*, *LEV*, *EQUIT*, *CORR*, *GDP*, and *INFL*.

Table 1.5 reports OLS regression results of CSR on corporate tax avoidance. The coefficient of *ETR* on *CSR* in Model I of Table 1.5 is negative (-0.111) and statistically significant (*P*-value = 0.001), thus providing support for Hypothesis 1, that there is an association between CSR and corporate tax avoidance, which is positive in this case. The economic significance of this association is indicated by the coefficient of 0.111 in Model I, which suggests that, *ceteris paribus*, an increase of one unit of the standard deviation of CSR, can be expected to lead to about a 2.49 percent (0.224*0.111*100) decrease in tax effective rate, implying a 2.49 percent increase in corporate tax avoidance level.

This evidence suggests that the higher the level of CSR of firms, the more corporate tax avoidance they engage in. This supports the provided theoretical framework of legitimacy and stakeholder theories (Suchman, 1995; Freeman, 1984; Mitchell et al., 1997; Carroll, 1991; Guillet & Mattila, 2010). That is, tourism-related firms might engage in CSR as a form of greenwashing to meet society's expectations and thus gaining legitimacy, while funding these CSR activities through corporate tax avoidance. This also helps them respond to shareholders' pressure to get high returns on their investments, especially given the high financial and business risks associated with this sector. Alternatively, firms might view minimising tax payments as a social responsibility, as this might help them to reinvest and expand, and therefore offer new jobs and positively affect social welfare (Davis et al., 2016a).

This result is consistent with Mao (2018) and Davis et al. (2016a) who find a positive association between CSR performance and corporate tax avoidance, and Lanis and Richardson (2013) who find a positive association between corporate tax avoidance and CSR disclosure. This result is also consistent to some extent with Preuss (2010) who finds that firms whose headquarters are located in tax havens (implying engaging in corporate tax avoidance) claim that they are socially responsible firms.

Second, based on agency theory, prior literature suggests that CG might affect corporate tax avoidance and CSR. Accordingly, equation (1) was re-run by adding corporate governance as a moderator (*CSR*CG*) in the right-hand side of the equation. The coefficient of *ETR* on *CSR*CG* in Model II of Table 1.5 is negative (-0.037) but statistically insignificant (*P*-value = 0.515), thereby supporting Hypothesis 2, that corporate governance moderates the link between CSR and corporate tax avoidance. This evidence supports agency theory and suggests that having a strong corporate governance system in place is expected to have a positive impact, through undermining the positive association between CSR and corporate tax avoidance. This means that strong corporate governance systems are likely to limit the ability of managers to engage in corporate tax avoidance. This is consistent with prior research in this area that finds an association between corporate governance and both corporate tax avoidance and CSR engagement (e.g. Dyreng et al., 2010; Lanis & Richardson, 2011; Armstrong et al., 2015; Desai & Dharmapala, 2006).

Third, further analysis has been conducted in order to gain better understanding of the relationship between CSR and corporate tax avoidance. This is done through dividing the sample into two sub-samples: highly responsible firms and less responsible firms, based on the mean of CSR scores. Equation (1) was re-run as it is but using these sub-samples. Model III of Table 1.5 illustrates the results of running equation (1) using the sub-sample of highly responsible firms. Interestingly, the coefficient of *ETR* on *CSR* in this model is positive (0.117) and statistically significant (*P*-value = 0.012), suggesting that highly responsible firms are associated with lower levels of corporate tax avoidance, as they pay corporate tax at high effective tax rates.

Table 1.5: The relationship between CSR and effective tax rate with OLS regressions

Dependent variable	Model I Main model ETR_t		Model II CG moderation ETR_t		Model III High CSR ETR_t		Model IV Low CSR ETR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variables								
CSR	-0.111	0.001***	-0.081	0.166	0.117	0.012*	-0.140	0.002**
Moderating variables								
CSR*CG	-	-	-0.037	0.515	-	-	-	-
INDIV	0.411	0.000***	0.416	0.000***	0.051	0.519	0.799	0.000***
ORIE	0.341	0.000***	0.347	0.000***	0.203	0.001***	0.553	0.000***
Firm-level controls								
FSIZE	-0.105	0.030*	-0.105	0.029*	-0.237	0.000***	-0.030	0.627
BSIZE	0.010	0.781	0.009	0.812	-0.079	0.130	0.039	0.449
EQUIT	-0.097	0.011*	-0.097	0.011*	-0.135	0.010**	-0.126	0.322
PPE	-0.121	0.000***	-0.120	0.000***	-0.125	0.006**	-0.117	0.035*
LEV	-0.040	0.254	-0.039	0.260	-0.058	0.231	-0.102	0.408
MV	0.056	0.185	0.059	0.164	0.265	0.000***	-0.061	0.281
CASH	-0.103	0.002**	-0.102	0.002**	-0.070	0.115	-0.110	0.017*
RIGHTS	-0.006	0.864	-0.005	0.870	-0.095	0.045*	0.037	0.392
Country-level controls								
GDP	-0.143	0.000***	-0.145	0.000***	-0.106	0.025*	-0.112	0.010**
INFL	-0.216	0.000***	-0.219	0.000***	-0.237	0.000***	-0.155	0.003**
CORR	-0.298	0.000***	-0.301	0.000***	-0.260	0.000***	-0.418	0.000***
YD	Included	-	Included	-	Included	-	Included	
CountryD	Included	-	Included	-	Included	-	Included	
Constant	0.530	0.000***	0.522	0.000***	0.580	0.083	0.499	0.000***
Standard error	0.114		0.114		0.109		0.111	
Durbin-Watson	2.022		2.020		2.007		1.921	
F-Value	13.342***		12.747***		7.241***		10.96***	
Adjusted R^2	0.211		0.210		0.214		0.299	
Number of observations	973		973		482		491	

Notes: This table illustrates the estimated OLS regressions coefficients from four different models investigate the relationship between CSR and corporate tax avoidance as follows: Model I examines whether CSR is associated with corporate tax avoidance; Model II examines whether corporate governance moderates the relation between CSR and corporate tax avoidance; Model III examines whether the relation between CSR and corporate tax avoidance is driven by firms with a high level of CSR engagement; Models IV examines whether the relations between CSR and corporate tax avoidance is driven by less responsible firms. Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), corporate social responsibility weighted by corporate governance (*CSR*CG*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of variables used are provided in Table 1.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

This evidence suggests that highly responsible tourism-related firms view tax payments as a part of their social responsibility; thus, these firms are unlikely to engage in corporate tax avoidance. This seems to be consistent with legitimacy theory, where firms abide by social norms in order to gain the right to exist (Suchman, 1995). This can be gained through engaging in CSR, including paying their fair share of tax to contribute to society. This evidence also suggests that highly responsible tourism-related firms, through engaging in CSR and paying their fair share of tax, may try to offset the negative impacts that their operations may cause to local communities. This is particularly true for some sub-sectors, such as resorts and hotels, which have negative impacts on water and marine life. This result is consistent with Lanis and Richardson's (2012) finding that firms with higher levels of CSR performance are associated with a lower likelihood of engaging in corporate tax avoidance. In addition, this result is consistent with investors' perception towards this link. Davis et al. (2016b) reveal that investors perceive firms that pay more taxes as more socially responsible compared to firms that pay less taxes.

Equation (1) was re-run using the sub-sample of less responsible firms. Model IV of Table 1.5 reports the results of this analysis. The coefficient of *ETR* on *CSR* in this model is negative (-0.140) and statistically significant (*P*-value = 0.002), suggesting a positive association between CSR and corporate tax avoidance among less responsible firms, as they pay corporate tax at low effective tax rates. This evidence indicates that less responsible tourism-related firms may engage in CSR as a form of greenwashing. This result is consistent with Hoi et al.'s (2013) finding that irresponsible firms are associated with higher levels of corporate tax avoidance. This result is also consistent with the results of the main model of this study (Model I of Table 1.5). Thus, the results of Models III and IV of Table 1.5 together suggest that less responsible firms drive the main result (Model I) of the positive association between CSR and corporate tax avoidance. On the other hand, highly responsible firms, as Model III reveals, are associated with lower levels of corporate tax avoidance.

Fourth, further analysis has been conducted in order to gain better understanding of the moderating effect of corporate governance on the association between CSR and corporate tax avoidance. This analysis was done by dividing each of the sub-samples of highly responsible firms and less responsible firms, based on the mean of corporate

governance score. This results in four sub-samples: highly responsible firms with a strong CG system, highly responsible firms with a poor CG system, less responsible firms with a strong CG system, and less responsible firms with a poor CG system.

Table 1.6 illustrates the results of running equation (1) for highly responsible firms, where Model I shows the overall results for these firms, and Model II and Model III illustrate the results of the sub-samples of these firms based on having strong or poor CG, respectively. The coefficient of *ETR* on *CSR* in Model I of Table 1.6, as presented in Model III of Table 1.5, is positive (0.177) and statistically significant (*P*-value = 0.012), suggesting a significant negative association between CSR and corporate tax avoidance among highly responsible firms, as previously discussed. Model II, which illustrates the association between CSR and corporate tax avoidance among highly responsible firms that have strong CG system, shows much higher magnitude for the positive coefficients of *ETR* on *CSR* (at 0.289), together with a higher significance level (*P*-value = 0.000). This suggests a stronger negative association between CSR and corporate tax avoidance for highly responsible firms that have strong corporate governance systems in place. On the other hand, Model III of Table 1.6 illustrates the results of the association between CSR and corporate tax avoidance among highly responsible firms that have weaker corporate governance systems. The coefficient of *ETR* on *CSR* in this model is negative (-0.002) but statistically insignificant (*P*-value = 0.948), suggesting that highly responsible firms with poor corporate governance systems have a very weak (or no) association between CSR and corporate tax avoidance. Overall, the results of Model II and Model III of Table 1.6 confirm the positive moderating effect of corporate governance on the association between CSR and corporate tax avoidance, and thus provide support for Hypothesis 2.

Table 1.6: Analysis of the link between CSR, CG and ETR among highly responsible firms

	Model I		Model II		Model III	
	High CSR		High CSR with high CG		High CSR with Low CG	
Dependent	ETR_t		ETR_t		ETR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
CSR	0.117	0.012*	0.289	0.000***	-0.002	0.948
Moderating variables						
INDIV	0.051	0.519	-0.031	0.711	0.250	0.038*
ORIE	0.203	0.001***	-0.178	0.004**	0.414	0.000***
Firm-level controls						
FSIZE	-0.237	0.000***	-0.383	0.000***	0.144	0.323
BSIZE	-0.079	0.130	-0.093	0.113	-0.240	0.007**
EQUIT	-0.135	0.010**	-0.081	0.185	0.028	0.795
PPE	-0.125	0.006**	-0.235	0.000***	-0.007	0.935
LEV	-0.058	0.231	-0.023	0.680	-0.101	0.223
MV	0.265	0.000***	0.216	0.004**	0.043	0.704
CASH	-0.070	0.115	-0.039	0.454	-0.097	0.184
RIGHTS	-0.095	0.045*	-0.036	0.483	-0.144	0.093
Country-level controls						
GDP	-0.106	0.025*	-0.006	0.907	-0.253	0.007**
INFL	-0.237	0.000***	-0.346	0.000***	-0.127	0.150
CORR	-0.260	0.000***	-0.238	0.000	-0.304	0.001***
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	0.580	0.083	0.844	0.000***	0.142	0.496
Standard error	0.109		0.096		0.104	
Durbin-Watson	2.007		2.028		2.109	
F-Value	7.241***		8.620***		4.710***	
Adjusted R^2	0.214		0.338		0.319	
Observations	482		315		167	

Notes: This table illustrates the estimated OLS regressions coefficients from three models investigate the relationship between CSR and corporate tax avoidance among highly responsible firms as follows: Model I illustrates the association between CSR and corporate tax avoidance among highly responsible firms; Model II and model III, through dividing these firms based on CG score, examine whether CG moderates the relation between CSR and corporate tax avoidance among these firms, where model II presents the results of this relationship among firms that have strong CG system, whereas model III illustrates the results of this association among firms that have poor CG system. Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), long term orientation (*ORIE*), individualism (*INDIV*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of variables used are provided in Table 1.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Similarly, equation (1) was re-run for less responsible firms. Table 1.7 presents the results, where Model I illustrates the overall results for these firms, and Model II and Model III illustrate the results of the sub-samples of these firms based on having strong or poor CG systems, respectively. The coefficient of *ETR* on *CSR* in Model I of Table 1.7, as presented in Model IV of Table 1.5, is negative (-0.140) and statistically significant (*P*-value = 0.002**), suggesting a significant positive association between CSR and corporate tax avoidance among less responsible firms. On the other hand, Model II of Table 1.7, which illustrates the results of the sub-sample of less responsible firms that have strong CG systems, shows a much lower magnitude (-0.034) of the negative coefficients of *ETR* on *CSR*, which is also statistically insignificant (*P*-value = 0.583). This suggests a weaker (or no) positive association between CSR and corporate tax avoidance among less responsible firms that have strong corporate governance systems in place. This suggests that having strong CG systems in less responsible firms can limit their ability to engage in corporate tax avoidance and weaken the positive association between CSR and corporate tax avoidance.

On the other hand, Model III of Table 1.7 presents the results of the association between CSR and corporate tax avoidance among less responsible firms that have weaker corporate governance systems. The coefficient of *ETR* on *CSR* in this model is negative, with a higher magnitude (0.177) than Model I, and statistically significant (*P*-value = 0.009), suggesting that less responsible firms that have weak corporate governance systems have a stronger positive association between CSR and corporate tax avoidance. This is consistent with the notion that these firms engage in more greenwashing associated with their CSR activities. Thus, taken together, the results of Model II and Model III of Table 1.7 also confirm the positive moderating effect of corporate governance on the association between CSR and corporate tax avoidance, therefore providing support for Hypothesis 2.

Table 1.7: Analysis of the link between CSR, CG and ETR among less responsible firms

Dependent	Model I Low CSR ETR_t		Model II Low CSR with high CG ETR_t		Model III Low CSR with Low ETR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent Variable						
CSR	-0.140	0.002**	-0.034	0.583	-0.177	0.009**
Moderating Variables						
INDIV	0.799	0.000***	0.250	0.057	0.773	0.000***
ORIE	0.553	0.000***	-0.380	0.001***	0.675	0.000***
Firm-level controls						
FSIZE	-0.030	0.627	-0.176	0.009**	0.137	0.009**
BSIZE	0.039	0.449	-0.118	0.047*	0.047	0.268
EQUIT	-0.126	0.322	-0.734	0.000***	0.135	0.557
PPE	-0.117	0.035*	-0.067	0.283	-0.101	0.417
LEV	-0.102	0.408	-0.716	0.000***	0.078	0.336
MV	-0.061	0.281	-0.139	0.051	-0.106	0.619
CASH	-0.110	0.017*	-0.233	0.000***	-0.056	0.301
RIGHTS	0.037	0.392	0.058	0.320	0.051	0.493
Country-level controls						
GDP	-0.112	0.010**	0.064	0.295	-0.168	0.010**
INFL	-0.155	0.003**	0.199	0.055	-0.090	0.231
CORR	-0.418	0.000***	-0.283	0.000***	-0.477	0.000***
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	0.499	0.000***	1.290	0.000***	0.221	0.090
Standard	0.111		0.106		0.103	
Durbin-	1.921		1.976		2.000	
F-Value	10.96***		7.935***		7.666***	
Adjusted R^2	0.299		0.385		0.354	
Observations	491		234		257	

Notes: This table illustrates the estimated OLS regressions coefficients from three models investigate the relationship between CSR and corporate tax avoidance among less responsible firms as follows: Model I illustrates the association between CSR and corporate tax avoidance among less responsible firms; Model II and model III, through dividing these firms based on CG score, examine whether corporate governance moderates the relation between CSR and corporate tax avoidance among these firms, where model II shows the results of this relationship among firms with strong CG systems, whereas model III illustrates the results of this association among firms that have poor CG systems. Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of variables used are provided in Table 1.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Fifth, in order to investigate the possible effect of cultural values on the association between CSR and corporate tax avoidance, the main sample was divided based on individualism (*INDIV*) score, into a sub-sample of high *INDIV* score and a sub-sample of low *INDIV* score. Also, the sample was divided based on long-term orientation (*ORIE*) score, into a sub-sample of high *ORIE* score and a sub-sample of low *ORIE* score. The results of running equation (1) for these four sub-samples are presented in Table 1.8.

Models I and II present the findings of the moderating effect of individualism. The coefficient of *ETR* on *CSR* in Model I of Table 1.8 is positive (0.056) but statistically insignificant (*P*-value = 0.304), suggesting a weak association between CSR and corporate tax avoidance among companies that are based in countries with a high level of individualism. On the other hand, the coefficient of *ETR* on *CSR* in Model II of Table 1.8 is positive (0.110) and statistically significant (*P*-value = 0.018), indicating a negative association between CSR and corporate tax avoidance among companies that are based in collectivistic cultures (low individualism). This suggests that these companies are likely to recognise tax payments as part of their social responsibility, thus providing support to Hypothesis 3. These findings seem to be consistent with the framework of managers' behaviour in these cultures. That is, managers in collectivistic cultures are more likely to put the interests of larger groups (such as society and the environment) ahead of their own interests. This is also generally consistent with the findings of Ho et al. (2012) and Waldman et al. (2006), who find a positive association between collectivistic cultures and level of CSR engagement, as well as with the findings of Ringov and Zollo (2007), who find that that highly individualistic cultures are associated with lower levels of CSR commitment.

Table 1.8: The link between CSR and ETR- the effects of cultural values

Dependent variable	Model I High *INDIV* ETR_t		Model II Low *INDIV* ETR_t		Model III High *ORIE* ETR_t		Model IV Low *ORIE* ETR_t	
	Coefficients	*P*-values	Coefficients	*P*-values	Coefficients	*P*-values	Coefficients	*P*-values
Independent variable								
CSR	0.056	0.304	0.110	0.018*	0.127	0.008**	0.196	0.000***
Moderating variables								
INDIV	0.004	0.958	0.404	0.000***	0.480	0.000***	0.319	0.005**
ORIE	-0.063	0.347	0.541	0.000***	0.815	0.000***	0.190	0.007**
Firm-level controls								
FSIZE	-0.316	0.000***	0.266	0.000***	-0.126	0.024*	-0.294	0.000***
BSIZE	-0.007	0.898	-0.104	0.026*	-0.079	0.098	-0.205	0.000***
EQUIT	-0.063	0.198	-0.104	0.440	-0.073	0.467	-0.067	0.202
PPE	-0.261	0.000***	-0.193	0.003**	0.005	0.908	-0.280	0.000***
LEV	-0.052	0.260	0.026	0.846	-0.005	0.962	-0.075	0.130
MV	0.047	0.424	-0.151	0.021*	0.002	0.973	-0.018	0.795
CASH	-0.191	0.000***	-0.048	0.257	-0.064	0.095	-0.132	0.004**
RIGHTS	0.037	0.399	-0.038	0.445	0.080	0.070	0.084	0.077
Country-level controls								
GDP	-0.087	0.037*	-0.075	0.169	-0.167	0.000***	-0.049	0.278
INFL	-0.229	0.018*	-0.119	0.016*	-0.162	0.001***	0.125	0.044*
CORR	-0.134	0.002**	-0.216	0.000***	0.081	0.072	-0.113	0.235
YD	Included	-	Included	-	Included	-	Included	-
CountryD	Included	-	Included	-	Included	-	Included	-
Constant	1.091	0.000***	-0.084	0.446	-0.122	0.335	0.545	0.000***
Standard error	0.165		0.110		0.126		0.085	
Durbin-Watson	1.946		1.893		2.045		1.920	
F-Value	7.222***		19.671***		23.330***		7.743***	
Adjusted R^2	0.184		0.501		0.490		0.227	
Number of observations	581		392		490		483	

Notes: This table illustrates the estimated OLS regressions coefficients from four different models investigates the relationship between CSR and corporate tax avoidance as follows: Model I examines this association among companies that belong to countries with a high individualism score; Model II examines this association among companies that belong to countries with a low individualism score; Model III examines the same association among companies that belong to countries with a high long-term orientation score; Models IV examines the association among companies that belong to countries with a low long-term orientation score. Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), corruption (*CORR*), and corporate social responsibility weighted by corporate governance (*CSR*CG*). Full definitions of variables used are provided in Table 1.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Similarly, Models III and IV of Table 1.8 present the findings of the moderating effect of the cultural value of long-term orientation. The coefficient of *ETR* on *CSR* in Model III of Table 1.8 is positive (0.127) and statistically significant (*P*-value = 0.008), indicating a negative association between CSR and corporate tax avoidance among companies that are based in countries with long-term orientation cultures. This suggests that these companies are likely to recognise tax payments as part of their social responsibility. However, interestingly, the coefficient of *ETR* on *CSR* in Model IV of Table 1.8 is also positive (0.196) and statistically significant (*P*-value = 0.000). This generally suggests no differences between companies that are based in long-term orientation cultures and those based in short-term orientation cultures in terms of the association between CSR and corporate tax avoidance, which does not support Hypothesis 4. This might be explained based on the distinct characteristics of the tourism sector, including its sensitivity to economic changes and the high financial and business risks. These might mean that tourism-related firms tend to maintain a good reputation among stakeholders and have a long-term relationship with them. This might lead most of these firms to have a long-term orientation in performing their business, in turn resulting in no significant differences between tourism-related firms that are based in countries with long-term orientation cultures and those based in countries with short-term orientation cultures.

6.3. Robustness analyses

The analyses of the association between CSR and corporate tax avoidance in the previous section did not take into account the possibility of the existence of endogeneity problems, nor the sensitivity of the results to different measurements of corporate tax avoidance. This section therefore presents how sensitive the findings are to the existence of endogeneity problems and alternative measurements of corporate tax avoidance.

6.3.1. Endogeneity problems

Prior research shows that endogeneity problems might limit the validity of empirical testing of models (Chenhall & Moers, 2007). Generally, an endogenous variable is a variable that correlates with the error term (Wooldridge, 2010). Endogeneity arises for a number of reasons, essentially including omitted variables and simultaneity (Larcker &

Rusticus, 2010). With respect to this research, an endogeneity problem might arise if *CSR*, which is assumed to be exogenous in equation (1), is correlated with the error term (ε), in which case OLS results may be biased. For the omitted variables problem, the process of selecting variables to be included in the model is generally guided by theories that support the association within the model (Chenhall & Moers, 2007). However, there will inevitably be secondary omitted variables that may be important for the model and can contribute to its R^2 and its predictive power, but which are not included in the model for reasons such as data availability (Chenhall & Moers, 2007). For example, Armstrong et al. (2015) find a positive association between board independence and corporate tax avoidance. Therefore, the exclusion of this variable from equation (1) might bias the OLS results. Another important cause of endogeneity is simultaneity, which arises when one or more explanatory variables are simultaneously determined by the explained variable (Larcker & Rusticus, 2010). With respect to this research, although its main aim is to examine the association, not the causality, between CSR and corporate tax avoidance, prior research reports that these constructs can be determined simultaneously (Davis et al., 2016a). This is because CSR engagement can happen as a result of corporate tax avoidance.

Following prior literature (Ntim, Opong, & Danbolt, 2012; Hoi et al., 2013; Larcker & Rusticus, 2010; Chenhall & Moers, 2007), this study addresses these issues in two ways: lagged structure technique and two-stage least squares (*2SLS*) regression analysis. First, equation (1) was re-estimated as a lagged structure in order to address any simultaneity problem that might exist due to the presence of a lagged CSR and corporate tax avoidance association. According to this, equation (1) was re-estimated as follows:

$$ETR_{it} = \propto_0 + \beta_1 CSR_{it-1} + \beta_2 INDIV_{it-1} + \beta_3 ORIE_{it-1} + \sum_{i=1}^{n} \beta_i CONTROLS_{it-1} + \varepsilon_{it-1} \quad (2)$$

Where everything is defined as in equation (1) but a year lag is introduced between *ETR* in the left-hand side of the equation, and *CSR* and other variables in the right-hand side of the equation, in which the current year's *ETR* depends on the previous year's *CSR*. Table 1.9 presents the results of the lagged structure technique of each of the four models originally illustrated in Table 1.5. In addition, it shows a side-by-side comparison between the results of the main analysis and the lagged structure. It can be easily recognised from Table 1.9 that the results of the lagged structure are very close to the results of the main analysis. Specifically, the lagged structure results of Model I show a negative and

statistically significant coefficient of *ETR* on *CSR*, with a very close magnitude to that of the main analysis. Similarly, results of the lagged structure in Model II show negative but statistically insignificant coefficients of *ETR* on *CSR*CG*, which is very close to the results of the main model. On the other hand, the results of Model III show a slight decrease in the magnitude of the significant positive coefficient of *ETR* on *CSR* for highly responsible firms. Finally, the results of the lagged structure of Model IV show a negative and statistically significant coefficient of *ETR* on *CSR* for less responsible firms and with a similar magnitude to the original analysis. The similarity of results of lagged and un-lagged structures for the four models suggest that the initial evidence of the relationships between CSR, corporate tax avoidance and corporate governance is robust.

Table 1.9: The link between CSR and ETR- a comparison between the main analysis and the lagged structure

| | Model I | | Model II | | Model III | | Model IV | |
	Main OLS	Lagged	Main OLS	Lagged	Main OLS	Lagged	Main OLS	Lagged
Dependent variable	ETR_t	ETR_{t+1}	ETR_t	ETR_{t+1}	ETR_t	ETR_{t+1}	ETR_t	ETR_{t+1}
Independent variables								
CSR	-0.111***	-0.112**	-0.081	-0.079	0.117*	0.104*	-0.140**	-0.141**
CSR*CG	-	-	-0.037	-0.039	-	-	-	-
Moderating variables								
INDIV	0.411***	0.439***	0.416***	0.443***	0.051	0.039	0.799***	0.815***
ORIE	0.341***	0.366***	0.347***	0.373***	0.203***	0.226***	0.553***	0.579***
Firm-level controls								
FSIZE	-0.105*	-0.106*	-0.105*	-0.107*	-0.237***	-0.283***	-0.030	-0.003
BSIZE	0.010	0.013	0.009	0.011	-0.079	-0.060	0.039	0.005
EQUIT	-0.097*	-0.093*	-0.097*	-0.093*	-0.135**	-0.161**	-0.126	-0.242
PPE	-0.121***	-0.113**	-0.120***	-0.112**	-0.125**	-0.097	-0.117*	-0.110
LEV	-0.040	-0.054	-0.039	-0.054	-0.058	-0.083	-0.102	-0.235
MV	0.056	0.045	0.059	0.048	0.265***	0.299***	-0.061	-0.075
CASH	-0.103**	-0.097**	-0.102**	-0.096**	-0.070	-0.046	-0.110*	-0.114*
RIGHTS	-0.006	0.011	-0.005	0.012	-0.095*	-0.082	0.037	0.051
Country-level controls								
GDP	-0.143***	-0.131***	-0.145***	-0.133***	-0.106*	-0.122*	-0.112**	-0.110*
INFL	-0.216***	-0.233***	-0.219***	-0.236***	-0.237***	-0.238***	-0.155**	-0.174***
CORR	-0.298***	-0.293***	-0.301***	-0.295***	-0.260***	-0.230***	-0.418***	-0.415***
YD	Included	Included	Included	Included	Included	Included	Included	Included
CountryD	Included	Included	Included	Included	Included	Included	Included	Included
Constant	0.530***	0.507***	0.522***	0.516***	0.580	0.611***	0.499***	0.526***
Standard error	0.114	0.116	0.114	0.116	0.109	0.109	0.111	0.112
Durbin-Watson	2.022	1.816	2.020	1.814	2.007	1.941	1.921	1.859
F-Value	13.342***	12.711***	12.747***	12.117***	7.241***	6.986***	10.96***	11.088***
Adjusted R^2	0.211	0.219	0.210	0.219	0.214	0.231	0.299	0.318
Number of observations	973	834	973	834	482	400	491	434

Notes: This table illustrates a comparison between the estimated OLS coefficients of the main models (i.e. those illustrated in Table 1.5) and the estimated lagged structure coefficients on the relationship between CSR and corporate tax avoidance of the four models as follows: Model I examines whether CSR is associated with corporate tax avoidance; Model II examines whether corporate governance moderates the relation between CSR and corporate tax avoidance; Model III examines whether the relations between CSR and corporate tax avoidance is driven by firms with a high level of CSR engagement; Models IV examines whether the relations between CSR and corporate tax avoidance is driven by firms with a low level of CSR engagement. Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), corporate social responsibility weighted by corporate governance (*CSR*CG*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of variables used are provided in Table 1.2. In this table, ***, **and* denote coefficient is significant at the .1%, 1% and 5% level.

Second, *2SLS* is used in order to address the endogeneity problems associated with omitted variables bias (Larcker & Rusticus, 2010; Chenhall & Moers, 2007). However, following Schultz, Tan, & Walsh (2010), a Durbin-Wu-Hausman (DWH) test was first used in order to assess whether there is an endogenous relationship between the dependent and independent variables (*CSR* and *ETR)*. This results in rejecting the null hypothesis, indicating that there is endogeneity between *CSR* and *ETR*. Accordingly, this suggests that OLS coefficient estimates might be biased and unreliable, and therefore there is a need to use the *2SLS* technique. In its first stage, *ETR* is replaced by *CSR* in equation (1), where *CSR* acts as a dependent variable that is to be determined by the other variables in the right-hand side of the equation. Therefore, the first stage is specified as follows:

$$CSR_{it} = \propto_0 + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \qquad (3)$$

The predicted value of *CSR* resulting from running equation (3) was saved as *P_CSR*. Then, in the second stage, this value replaced the original values of *CSR*. Thus, equation (1) was re-estimated as follows:

$$ETR_{it} = \propto_0 + \beta_1 P\_CSR_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \qquad (4)$$

Where everything is defined as in equation (1) but *CSR* is replaced by the predicted value *P_CSR* obtained from equation (3). However, before running equation (4), it is important to check whether there is high correlation between the predicted value of CSR (*P_CSR*) and the right-hand side of the equation. This assessment is done using Pearson correlation. Apart from the very high correlation between *P_CSR* and *FSIZE*, which led to excluding *FSIZE* from equation (4), the correlation between *P_CSR* and other variables is generally low, suggesting the validity of *P_CSR* to replace *CSR* in equation (4). Table 1.10 reports the results of both stages of *2SLS* analysis. Model IV of Table 1.10, which reports the results of the *2SLS* model for the link between *CSR* and *ETR* for the whole sample, generally shows similar results to those obtained from using OLS regression. More specifically, the *2SLS* technique results show a negative and statistically significant coefficient of *ETR* on *CSR*, and with a higher magnitude. Similarly, the results of all other variables included in Model IV show very similar results to those of Model I of Table 1.10 (OLS model). These results suggest that the evidence of the positive association between

CSR and corporate tax avoidance is not sensitive to endogeneity problems that are associated with omitted variables. Overall, the results of the OLS technique, lagged structure and *2SLS* technique, as presented in Table 1.10, show very similar findings, indicating that the results of this research do not suffer from endogeneity problems.

Table 1.10: The relationship between CSR and ETR with OLS- a comparison between the main analysis, lagged structure and 2SLS

	Model I OLS analysis		Model II Lagged structure		Model III 2SLS (1st stage)		Model IV 2SLS (2nd stage)	
Dependent variable	ETR_t		ETR_{t+1}		CSR_t		ETR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable								
CSR/ P_CSR	-0.111	0.001***	-0.112	0.002**	-	-	-0.227	0.003**
Moderating variables								
INDIV	0.411	0.000***	0.439	0.000***	0.337	0.000***	0.517	0.000***
ORIE	0.341	0.000***	0.366	0.000***	-0.005	0.910	0.340	0.000***
Firm-level controls								
FSIZE	-0.105	0.030*	-0.106	0.042*	0.336	0.000***	-	-
BSIZE	0.010	0.781	0.013	0.747	0.137	0.000***	0.053	0.239
EQUIT	-0.097	0.011*	-0.093	0.024*	0.009	0.807	-0.094	0.013*
PPE	-0.121	0.000***	-0.113	0.002**	-0.050	0.126	-0.136	0.000***
LEV	-0.040	0.254	-0.054	0.147	-0.002	0.946	-0.040	0.248
MV	0.056	0.185	0.045	0.319	0.038	0.344	0.068	0.140
CASH	-0.103	0.002**	-0.097	0.006**	-0.089	0.005**	-0.131	0.000***
RIGHTS	-0.006	0.864	0.011	0.750	-0.088	0.005**	-0.033	0.338
Country-level controls								
GDP	-0.143	0.000***	-0.131	0.000***	-0.015	0.632	-0.148	0.000***
INFL	-0.216	0.000***	-0.233	0.000***	0.237	0.000***	-0.142	0.006**
CORR	-0.298	0.000***	-0.293	0.000***	-0.142	0.000***	-0.343	0.000***
YD	Included	-	Included	-	Included	-	Included	-
CountryD	Included	-	Included	-	Included	-	Included	-
Durbin-Watson	2.022		1.816		2.099		2.013	
F-Value	13.342***		12.711***		19.170***		13.326***	
Adjusted R^2	0.211		0.219		0.272		0.202	
Number of observations	973		834		973		973	

Notes: This table illustrates the estimated *2SLS* coefficients in comparison to the estimated coefficients of the main models (illustrated as Model I in Table 1.5) and the coefficient of the lagged structure of the same model (illustrated as Model I in Table 1.8) on the relationship between CSR and corporate tax avoidance as follows: Model I examines the association between CSR and corporate tax avoidance using OLS regression; Model II examines the same relationship using lagged structure technique; Model III presents the results of the first stage of *2SLS* technique, where *ETR* is replaced by *CSR* as the dependent variable; Models IV presents the results of the second stage of *2SLS* on the association between *CSR* and *ETR*. Variables are defined as follows: effective tax rate (*ETR*), corporate social responsibility score (*CSR*), corporate social responsibility predicted value that was obtained from the first stage of *2SLS* technique and was used in the second stage (*P_CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of variables used are provided in Table 1.2. In this table, ***, **and* denote coefficient is significant at the .1%, 1% and 5% level.

6.3.2. Alternative corporate tax avoidance measurement

In this section, an alternative measurement for corporate tax avoidance is used. This is in order to assess the sensitivity of the results to corporate tax avoidance measurements. Although prior literature shows that the use of annual effective tax rate prevails in this research area (e.g., Jones et al., 2017; Davis et al., 2016b; Chen et al., 2010; Lanis & Richardson, 2012, 2015; Huseynov & Klamm, 2012; Landry et al., 2013), Minnick and Noga (2010) report some concerns related to the use of this measurement. The concern is particularly based on the use of annual data. That is, a year-to-year variation in effective tax rate might happen because of negative denominators, which might mistakenly indicate a firm's tax avoidance. Further, the study argues that as a one-year measure, annual effective tax rate does not properly consider isolated payments to (or refunds from) tax authorities, which might happen as a settlement of tax disputes from previous years. Within this framework, Dyreng et al. (2008) find that annual cash effective tax rate is not effective in measuring long-term corporate tax avoidance.

Accordingly, to control for these concerns, this study follows Dyreng et al. (2008), who develop a measure for corporate tax avoidance based on the ability of firms to engage in corporate tax avoidance over a long time. This measurement calculates effective tax rate as the sum of a firm's cash tax paid over a period of ten years, divided by the sum of the firm's pre-tax income for those ten years. Although the original measurement is based on a period of ten years, different studies adjust the measurement according to the purpose of each study and the nature of its data. For example, Davis et al. (2016a) use this measurement to examine corporate tax avoidance over a period of five years. In this sense, Minnick and Noga (2010) introduce measuring effective tax rate as the sum of tax expenses of the past five years divided by the sum of pre-tax income for the same five years. Due to the concerns associated with the use of cash *ETR* as discussed in Section Five above, this study follows Minnick and Noga (2010) and measures long-run effective tax rate (*LRETR*) as the sum of a firm's tax expenses for the seven years of this study, divided by the sum of pre-tax income for the same seven years. To assess whether the main results of this study are sensitive to corporate tax avoidance measurement, *LRETR* replaced *ETR* in equation (1), which therefore is specified as:

$$LRETR_{it} = \alpha_0 + \beta_1 CSR_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i CONTROLS_{it} + \varepsilon_{it} \qquad (5)$$

Where everything is defined as in equation (1) except for replacing *ETR* with *LRETR* as defined above. Table 1.11 illustrates a comparison between the results of the two main models of this study (i.e., Model I and Model II of Table 1.5), which are also reported in Table 1.11 under Models I and III, respectively, and their counterpart models using *LRETR*, in Models II and IV of Table 1.11, respectively. The coefficient of *LRETR* on *CSR* in Model II of Table 1.11 is negative and statistically significant, similar to the coefficient of *ETR* on *CSR* of the main analysis, with the same magnitude and direction. This suggests that the evidence of the positive association between CSR and corporate tax avoidance is robust and not sensitive to the alternative measurement of corporate tax avoidance. Similarly, the comparison between the results of the moderating effect of CG on this link shows similar results. Models III and IV of Table 1.11 present this comparison. Although the weak negative coefficient of *ETR* on *CSR*CG* turns to be positive for *LRETR* on *CSR*CG*, it remains insignificant. This generally suggests that the evidence of the moderating positive effect of CG on the association between CSR and corporate tax avoidance is robust and not sensitive to the alternative measurement of corporate tax avoidance.

Table 1: The relationship between CSR and ETR- a comparison between the main measure and the alternative measure of tax avoidance

Dependent variable	Model I Main OLS analysis ETR_t		Model II Alternative measurement $LRETR_t$		Model III Main OLS analysis ETR_t		Model IV Alternative measurement $LRETR_t$	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variables								
CSR	-0.111	0.001***	-0.111	0.001***	-0.081	0.166	-0.158	0.007
CSR*CG	-	-	-	-	-0.037	0.515	0.055	0.328
Moderating variables								
INDIV	0.411	0.000***	0.290	0.000***	0.416	0.000***	0.284	0.000
ORIE	0.341	0.000***	0.251	0.000***	0.347	0.000***	0.242	0.000
Firm-level controls								
FSIZE	-0.105	0.030*	-0.042	0.388	-0.105	0.029*	-0.041	0.396
BSIZE	0.010	0.781	0.055	0.139	0.009	0.812	0.057	0.125
EQUIT	-0.097	0.011*	-0.134	0.000***	-0.097	0.011*	-0.134	0.000
PPE	-0.121	0.000***	-0.149	0.000***	-0.120	0.000***	-0.150	0.000
LEV	-0.040	0.254	-0.013	0.714	-0.039	0.260	-0.014	0.698
MV	0.056	0.185	0.104	0.014*	0.059	0.164	0.099	0.020
CASH	-0.103	0.002**	-0.091	0.006**	-0.102	0.002**	-0.092	0.005
RIGHTS	-0.006	0.864	-0.087	0.007**	-0.005	0.870	-0.087	0.007
Country-level controls								
GDP	-0.143	0.000***	-0.127	0.000***	-0.145	0.000***	-0.125	0.000
INFL	-0.216	0.000***	-0.185	0.000***	-0.219	0.000***	-0.181	0.000
CORR	-0.298	0.000***	-0.331	0.000***	-0.301	0.000***	-0.327	0.000
YD	Included	-	Included	-	Included	-	Included	-
CountryD	Included	-	Included	-	Included	-	Included	-
Durbin-Watson	2.022		2.036		2.020		2.044	
F-Value	13.342***		12.802***		12.747***		12.263***	
Adjusted R^2	0.211		0.203		0.210		0.203	
Number of observations	973		973		973		973	

Notes: This table illustrates a comparison between the estimated coefficients of the alternative measure of corporate tax avoidance (*LRETR*) and the estimated coefficients of the main measure-*ETR* (illustrated in Table 1.5) on the relationship between CSR and corporate tax avoidance, and the moderating role of CG, as follows: Model I illustrates the results of whether CSR is associated with corporate tax avoidance using *ETR* as a measure for corporate tax avoidance; Model II examines the previous link but using *LRETR* as a measure for corporate tax avoidance; Model III examines whether CG moderates the relation between CSR and corporate tax avoidance, using *ETR* as a measure for corporate tax avoidance; Models IV examines the previous link but using *LRETR* as a measure for corporate tax avoidance. Variables are defined as follows: effective tax rate as a main measurement for corporate tax avoidance (*ETR*), long run effective tax rate as an alternative measurement for corporate tax avoidance (*LRETR*), corporate social responsibility score (*CSR*), corporate social responsibility weighted by corporate governance (*CSR*CG*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board size (*BSIZE*), shareholders' equity (*EQUIT*), property, plant and equipment (*PPE*), leverage (*LEV*), market value (*MV*), cash (*CASH*), shareholders' rights (*RIGHTS*), GDP growth (*GDP*), inflation (*INFL*), and corruption (*CORR*). Full definitions of variables used are provided in Table 1.2. In this table, ***, **and* denote coefficient is significant at the .1%, 1% and 5% level.

7. Conclusions and implications

Recent decades have witnessed an increasing tendency of firms to engage in corporate tax avoidance. This raises questions over whether corporations view paying taxes as part of their social responsibility or as a burden that reduces shareholder value. Accordingly, there has been much attention on the motivation of corporations for engaging in this behaviour, with a particular focus on the role of executives. Tourism-related firms have distinct characteristics that seem to play a crucial role in shaping this behaviour. Accordingly, this study investigates the association between CSR and corporate tax avoidance in tourism-related firms, and the moderating effect of corporate governance and cultural values on this link. This study therefore has a number of contributions and implications, presented in this section.

7.1. Theoretical contributions

This study makes a crucial contribution to developing a multi-theoretical framework on the link between CSR and corporate tax avoidance. Most prior research in this area (e.g., Mao, 2018; Jones et al., 2017; Davis et al., 2016b; Lanis & Richardson, 2013) shows the use of individual theories, which does not provide comprehensive theoretical underpinnings to understanding this association. The multi-theoretical framework is constructed based on the model of stakeholder salience of Mitchell et al. (1997), stakeholder theory (Freeman, 1984), legitimacy theory (Suchman, 1995), the CSR model of Carroll (1991), and agency theory (Fama & Jensen, 1983).

In particular, legitimacy theory suggests that firms engage in CSR in order to gain the right to exist in society (Suchman, 1995). This theory implies being ethical and doing the right thing (Carroll, 1991). This, in turn, implies paying a fair share of taxes to contribute to society, and thus explains the negative association between CSR and corporate tax avoidance. On the other hand, from a stakeholder theory point of view, firms should consider all groups that they affect or are affected by (Freeman, 1984). Although stakeholder groups can be divided into classes (Mitchell et al., 1997), the shareholder class is the most salient as it has power, legitimacy and urgency. Therefore, shareholders may pressure firms to prioritise their demands for profit maximisation (the base of Carroll's (1991) CSR pyramid). This might push managers to engage in corporate tax avoidance.

Thus, engaging in CSR activities (to gain legitimacy) might be accompanied by corporate tax avoidance (to maintain high returns to shareholders), which might explain the positive association between CSR and corporate tax avoidance. Agency theory suggests that there is no association between CSR and corporate tax avoidance, where managers should engage in corporate tax avoidance to maximise profit but only engage in CSR activities if they are making profit (Friedman, 1962).

In addition, this study contributes to tourism literature through bringing the critical area of corporate tax avoidance and its association with CSR to this sector. Furthermore, this research addresses the possible effects of distinct characteristics of tourism-related firms on the CSR-tax link. For example, the tourism sector is distinct with its sensitivity to economic changes and for being capital-intensive (Guillet & Mattila, 2010). Therefore, tourism-related firms may face more pressure to meet shareholder expectations alongside the social pressure to act responsibly. Especially, this sector generally has negative impacts on local communities. This is mainly caused by some tourism sub-sectors, such as resorts and luxury hotels, which negatively impact water and marine life.

Furthermore, this study contributes to prior literature on CSR and corporate tax avoidance by providing new insights on the moderating effects of corporate governance and cultural values on the CSR-tax link. That is, according to agency theory, corporate governance is expected to affect tax avoidance behaviour as well as CSR engagement. In particular, most tourism-related firms have different organisational structures that require different frameworks in terms of responsibility distribution and control (Pechlaner et al., 2011). This might affect both tax avoidance behaviour and CSR engagement, and in turn the association between them.

7.2. Empirical contributions

This study contributes to the extant literature on the associations between CSR, corporate tax avoidance, corporate governance and cultural values by specifically modelling these links within a new context – the tourism sector. At the same time, this contributes to tourism empirical research by investigating these constructs empirically in this sector. In particular, this study explores whether the unique characteristics of tourism-related firms might affect the links between CSR, corporate tax avoidance, corporate governance and

cultural values. In addition, while prior empirical research in this area has been based on a single country, this study examines these links based on an international sample. It constitutes 973 observations from 2010 to 2016, collected from a number of sources, including DataStream, Asset4 ESG, World Bank, IMF, Green Hofstede, and Transparency International.

The results of this study make four new contributions to the extant literature. First, overall, tourism-related firms do not seem to view tax payments as part of their social responsibility, as they seem to engage in CSR in order to gain the legitimacy which confers the right to exist in society (responding mainly to non-shareholder stakeholders' demands). However, simultaneously, they seem to engage in corporate tax avoidance in order to meet the demands of shareholders (high returns). Second, highly responsible firms are associated with lower levels of corporate tax avoidance, whereas less responsible firms are associated with high levels of corporate tax avoidance. This suggests that the positive association between CSR and corporate tax avoidance in tourism-related firms is driven by less responsible firms. Third, corporate governance has a positive moderating effect on the association between CSR and corporate tax avoidance. Finally, tourism-related firms that are based in collectivistic cultures are more likely to recognise tax payments as part of their social responsibility compared to firms that belong to individualistic cultures. On the other hand, long-term orientation as a cultural value does not seem to moderate the CSR-tax link, which may be due to the distinct characteristics of tourism-related firms. This study also provides support to prior empirical literature on the association between CSR and corporate tax avoidance (Mao, 2018; Lanis & Richardson, 2012, 2013; Watson, 2015; Jones et al., 2017; Davis et al., 2016a).

7.3. Implications

This study has important implications for a number of parties. These include tourism-related firms, governments, regulators, non-governmental organisations and other stakeholders.

7.3.1. Implications for management

This study has important implications for the ways tourism-related firms are managed and directed. Specifically, given the evidence of the positive moderating effect of CG on the association between CSR and corporate tax avoidance, this study provides tourism-related firms with a strong motivation to strengthen their corporate governance systems. Particularly, the tourism sector is one of the sectors that may suffer from difficulty in attracting finance due to its high business and financial risks (Guillet & Mattila, 2010). Thus, maintaining positive perceptions of investors towards tourism-related firms is very important, and this might be gained through having strong corporate governance systems in place. In this sense, given the findings of firms that have poor CSR performance as well as poor corporate governance mechanisms, much attention should be paid to the way that these firms are managed and directed, since they might have severe problems in the long run in terms of attracting investments, due to the gradual loss of their legitimacy. On the other hand, the evidence of the negative association between CSR and corporate tax avoidance among highly responsible firms encourages the management of tourism-related firms to acknowledge that tax payment is a crucial part of their CSR. This is important in gaining stable and long-term legitimacy that positively affects firms' operations. Furthermore, given the moderating effect of individualism/collectivism on the association between CSR and corporate tax avoidance, tourism-related firms should pay attention to the cultural values of board members and executives. In addition, they should ensure that board members have balanced backgrounds that put the interests of groups ahead of individual interests. This would help firms consider the interests of larger groups, such as society and the environment, and therefore avoid harming firms' reputation.

7.3.2. Implications for other stakeholders

This study has important implications for governments, particularly those of countries that depend heavily on tourism, given the evidence of the positive association between less responsible firms and corporate tax avoidance, and the unique ways tourism-related firms can engage in corporate tax avoidance. It highlights possible opportunities for these countries to enhance their tax collection. First, the governments of countries that depend on tourism (the hosts) can encourage local tour operators to establish offices in the foreign

countries that constitute the main markets of these countries. This is in order to avoid dealing with multinational operators who deal directly with the tourists and gain a high proportion of the profit. In many cases this money does not even enter the local economies. Doing so, therefore, might secure higher tax revenues to the governments of the host countries through the local operators. In addition, multinational operators are normally more likely to engage in tax avoidance, as they have more facilities to do so, such as the use of transfer pricing. Therefore, reducing direct deals with these multinational companies in favour of local operators is likely to increase the tax collections for local governments. Moreover, these governments should strengthen their tax laws and bridge the holes that companies might exploit in tax avoidance practices. In this sense, these governments might also increase indirect taxes in the tourism sector generally at the expense of direct taxes. This is because indirect taxes are more difficult to avoid.

For regulators and non-governmental organisations, the results of this study motivate them to put more pressure particularly on less responsible firms. For example, this can be through including tax payments in CSR initiatives and indices of tourism sector. Furthermore, this pressure might also be exercised by using the media to highlight any discovery of corporate tax avoidance. This might negatively affect the reputation of these firms, and therefore warn other firms against engaging in corporate tax avoidance. In addition, given the positive moderating effect of CG on the CSR-tax link, regulators may strengthen the corporate governance guidelines of this sector and encourage tourism-related firms, particularly less responsible ones, to abide by these guidelines.

7.4. Limitations and future research

Whilst the findings of this research are important and robust, there are limitations. Due to data availability, this research is based on data of 139 tourism-related firms. This number of firms is relatively small compared to the overall number of tourism-related firms operating around the world. As more data becomes available, future research may include more variables in its analysis, such as executive compensation, executive power and earnings management.

This study opens new theoretical and empirical avenues for future research. With respect to the theoretical avenues, the results of this research imply that future research can

potentially strengthen the theoretical frameworks, especially regarding stakeholder theory. Future research might draw on other relevant frameworks, such as stakeholder classes' framework, and in particular its links with legitimacy theory. This study also opens new avenues for future research by drawing on the effects of the unique characteristics of the tourism sector on the association between CSR, corporate tax avoidance and corporate governance.

With regards to empirical avenues, given the evidence of the possible impacts of sectorial characteristics on the examined links, this study paves the way for future research to focus on sectorial studies. Furthermore, it motivates accounting research in the tourism sector, which is still minimal. In addition, the evidence of this study regarding the CSR-tax link motivates future research to investigate the moderating effects of other firm-level and country-level characteristics. This might contribute to the understanding of the relationship between CSR and corporate tax avoidance.

Paper 2

Long-Term Executive Pay and Corporate Tax Avoidance: The Effects of Governance and Culture

Abstract

This paper investigates the relationship between long-term executive pay and corporate tax avoidance, and the moderating effect of corporate governance and cultural values, in a unique setting – the tourism sector. Using an international sample of 117 tourism-related firms, this study finds a positive association between long-term executive pay and corporate tax avoidance. Further analysis shows that these results are mainly driven by poorly governed firms, whereas well-governed firms show no such association, consistent with well-governed firms being more likely to limit undesirable corporate tax avoidance. The findings provide evidence supporting managerial power and rent extraction theories. The results further show that the fragility and the high level of financial and business risks inherent in the tourism sector might affect the willingness of well-governed firms to accept risks associated with tax-avoidance behaviour. Further, the findings provide some evidence of the moderating effects of cultural values on the link between long-term executive pay and corporate tax avoidance. The results are robust to alternative estimation techniques (i.e. *2SLS* and lagged structure) and to alternative measures. These results indicate that tourism-related firms should be careful when designing executive pay contracts, considering the cultural values of executives and the sectorial risks.

Keywords: *long-term executive pay; corporate tax avoidance; corporate governance; culture; tourism-related firms.*

1. Introduction

This study investigates the central question of whether linking executive pay to firm value motivates executives to engage in corporate tax avoidance.[7] It also investigates the moderating effect of corporate governance and cultural values on this link. The study models these relations in a novel context, using tourism-related firms. Using an international sample of tourism-related firms, this study provides evidence of a positive association between long-term executive pay and corporate tax avoidance. It further provides new evidence that this positive association is driven by poorly governed firms, while well-governed firms seem to limit managers' ability to engage in corporate tax avoidance. In addition, it provides some evidence that cultural values might affect the link between long-term executive pay and corporate tax avoidance.

Prior literature generally shows that taxes are considered a crucial factor that can affect corporate decision-making and corporate value. For example, Armstrong, Glaeser and Kepler (2018) find that firms might have a strategic reaction in terms of their tax planning decisions as a response to the tax planning activities of their industry competitors. Further, Graham (2003) reports that taxes can affect capital structure, payout policy, pay policy, risk management and organisational form. Accordingly, firms normally include tax avoidance strategies in their business planning and strategic planning (Phillips, 2003). However, answers are still inconclusive for major questions raised in the corporate tax avoidance literature, such as what motivates firms and managers to engage in corporate tax avoidance (Desai & Dharmapala, 2006), why some firms engage in it enthusiastically while others seem to avoid it (Gallemore, Maydew, & Thornock, 2014), and why some firms engage in corporate tax avoidance more than others (Gaertner, 2014).

Despite the possibility of benefitting from corporate tax avoidance, such as through its possible role in increasing firm value (Desai & Dharmapala, 2009b), there are costs. One major cost that might make managers reluctant to engage in it are reputational costs. These might result in severe risks to the firm's reputation, as the public might have little tolerance for such behaviour (Drake et al., 2019; Hutchens et al., 2019; Gallemore et al., 2014). In this regard, surveying 600 corporate tax executives, Graham, Hanlon, Shevlin and Shroff (2014) found that more than two-thirds of them rated reputational costs as an

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[7] Following Hanlon and Heitzman (2010) and Dyreng, Hanlon and Maydew (2008), this research defines tax avoidance broadly as the explicit reduction of tax burden, regardless of its legality.

important factor in tax-avoidance decisions. Another significant cost is the reputational costs to managers themselves (Gallemore et al., 2014). Costs also include the charges paid to tax authorities if illegal tax avoidance is discovered (Wilson, 2009), as well as the subsequent increase in scrutiny, which might result in increases in tax examination costs (Phillips, 2003). Accordingly, Rego and Wilson (2012) argue that there must be incentives for executives to engage in tax avoidance in order to compensate for the additional risks they bear, and for the increased efforts they exert in engaging in it. However, Gallemore et al. (2014) analysed a sample of 118 firms that prior research had shown to have engaged in corporate tax avoidance, and found no evidence that they or their top executives experienced any significant reputational costs from tax avoidance involvement.

Accordingly, research has attempted to provide a framework for the determinants of tax-avoidance behaviour. One stream of literature focuses on firm characteristics as one determinant. For example, multinational companies might have more facilities than domestic firms to engage in tax avoidance, e.g., by using transfer-pricing strategies. This stream primarily finds that firm size, multinational operations, profitability and capital intensity are positively associated with tax avoidance levels (Attwood, Omer, & Shelley, 1998; Rego, 2003).

Another stream of literature focuses on executives' behaviour as a possible determinant of tax-avoidance behaviour. One view is that executives cannot easily affect corporate decisions to attain private benefits (Bertrand & Schoar, 2003). An opposing view, based on agency theory, is that executives have discretion within the firm, which they can use to influence corporate decisions in a way that advances their own objectives (Dyreng, Hanlon, & Maydew, 2010). Therefore, linking executive wealth to firm value might motivate them to use this discretion in adopting riskier policies (including tax avoidance). Accordingly, based on an optimal contracting approach, using equity-based compensation might motivate managers to engage in corporate tax avoidance. However, based on managerial power and rent extraction theories, Desai and Dharmapala (2006) argue that engaging in corporate tax avoidance might help executives in diverting firm resources for rent extraction purposes at the expense of shareholder value. This, in turn, might affect the association between executive compensation and tax avoidance.

Generally, empirical research in this area shows mixed results. For example, Phillips (2003) finds no direct effect of executives on corporate tax avoidance, whereas Hsieh, Wang and Demirkan, (2018), Dyreng et al. (2010) and Gaertner (2014) find evidence of a direct effect for the same link. In addition, while Desai and Dharmapala (2006) report a negative association between executive pay and corporate tax avoidance, Dyreng et al. (2010) and Hansen, Lopez and Reitenga (2017) provide evidence of a positive association for the same link. In addition, extensive research (Guay, 1999; Rajgopal & Shevlin, 2002; Coles, Daniel, & Naveen, 2006; Williams & Rao, 2006; Rego & Wilson, 2012; Armstrong, Blouin, Jagolinzer, & Larcker, 2015) addresses long-term executive pay, especially equity-based pay and its role in motivating executives to engage in higher levels of risk. The findings of this stream generally show that equity-based compensation motivates executives to adopt riskier polices (including tax avoidance). This study extends and advances this stream of literature by examining the association between long-term executive pay and corporate tax avoidance in a unique setting –tourism-related firms. In particular, this study explores whether the unique characteristics of tourism-related firms can moderate this link. Further, most, if not all, previous studies that examine this link are based on US data, while this study provides novel evidence based on an international sample.

This study contributes to the literature in this area by conducting sectorial research, which might help in understanding whether the unique characteristics of sectors can affect the links among different constructs. Tourism-related firms have distinct characteristics that might affect the associations among executive pay, tax avoidance, culture and corporate governance. For example, the tourism sector is distinct, because of seasonality and its high sensitivity to economic conditions, and therefore it is vulnerable to numerous business and financial risks (Guillet & Mattila, 2010). Accordingly, managers might engage in riskier policies, including tax avoidance, in order to maximise their own benefits as compensation for the high risks they bear. In addition, the tourism sector is distinct with its mobility nature that allows firms to be located in different places, thus can encourage managers to adopt tax-avoidance strategies.[8]

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[8] For example, a study conducted by the World Bank (WB) shows that once a European tourist makes a reservation to a destination in Kenya through a European operator, 80 percent, on average, of the value charged is channelled to an offshore tax-free bank account, and just 20 percent is allocated to the hotel in Kenya, which is also owned by that integrated tour operator (WB, 2010). This hotel therefore cannot cover its costs and in turn reports losses, which leads eventually to paying zero tax to the Kenyan government.

The literature also shows mixed results regarding the effect of corporate governance on the association between executive pay and tax avoidance (e.g., Desai & Dharmapala, 2006; Armstrong et al., 2015). It suggests that different corporate governance systems are required for different industries (Yoshikawa & Rasheed, 2009; Guillén, 2000). For example, the organisational structures of most tourism-related firms are different from other firms (Pechlaner et al., 2011), requiring different systems for responsibility distribution and control, and therefore different corporate governance systems. In addition, Al-Najjar (2017) finds that tourism-related firms have relatively smaller board sizes and shorter CEO tenure, which confirms their uniqueness. This study contributes to this stream of literature by investigating the moderating effect of corporate governance systems of tourism-related firms on the association between long-term executive pay and corporate tax avoidance. This research focuses on tourism-related firms since very few studies address executive pay in tourism-related firms (Gu & Choi, 2004; Skalpe, 2007; Madanoglu & Karadag, 2008; Ozdemir & Upneja, 2012; Al-Najjar, 2017). None of them have addressed either the impact of executive pay on tax avoidance or the impact of corporate governance on this link, which this study will do.

Using a sample of 819 observations over the period 2010-2016, this study finds evidence that long-term executive pay is positively associated with corporate tax avoidance. However, it was found that this result is primarily driven by the sub-sample of poorly governed firms, whereas well-governed firms show no association. These results are consistent with the theoretical framework of managerial power and rent extraction theories, as well as with the distinct characteristics of tourism-related firms. This is because executives of poorly governed firms are expected to have more power, and they are more likely to be overly paid, including equity pay (Bebchuk & Fried, 2004), giving them greater incentive to engage in tax avoidance, especially in a high-risk sector like the tourism sector. On the other hand, well-governed firms are more likely to limit undesirable corporate tax avoidance (Armstrong et al., 2015). That is, given the fragility and high level of financial and business risks associated with this sector, well-governed tourism-related firms seem to avoid taking excessive risks; i.e., risks associated with tax-avoidance behaviour, which also may result in managerial diversion. Furthermore, this study provides some evidence that cultural values might affect the association between long-term executive pay and

corporate tax avoidance. A weaker association was found between long-term executive pay and corporate tax avoidance in countries with a high level of individualism, suggesting that boards of directors in individualistic countries might seek to prevent managers from engaging in corporate tax avoidance, in order to avoid their tendency to exploit tax avoidance practices in diverting corporate resources.

The remainder of the paper is organised as follows. Section Two presents the background of the main variables of this research, and Section Three discusses the theoretical framework underpinning this research. Then, empirical literature review and hypotheses development are presented in Section Four. Next, Section Five illustrates the research design, followed by empirical results and discussion presented in Section Six. Finally, conclusions are offered in Section Seven.

2. Background

2.1. Tax avoidance literature

2.2.1. Tax avoidance background

Tax avoidance is argued to be pervasive worldwide (Alstadsæter, Johannesen, & Zucman, 2018). This was largely confirmed by the successive huge offshore finance leaks such as the "Panama Papers" in 2016 and the "Paradise Papers" in 2017, showing huge numbers of corporations worldwide aggressively engaging in tax avoidance (BBC, 2017). This includes billions of dollars held offshore, which makes governments worldwide lose tax revenues of billions of dollars (BBC, 2017) and therefore weakens governments' ability to provide public services. Accordingly, Oxfam international director Winnie Byanyima calls for reforming the international corporate tax system in the aftermath of the Panama and Paradise Papers (Pegg, 2018). Pegg (2018) argues that tax avoidance behaviour is an affront to human rights, as it keeps people in poverty worldwide.

The term "tax avoidance" is usually used to refer to a reduction in taxes done without violating tax laws, whereas the term "tax evasion" is usually used to refer to tax reductions achieved through violating tax laws (Gravelle, 2009; Fuest & Riedel, 2009). However, some studies use the term "tax avoidance" broadly to express all tax reductions, regardless of their legality. For example, Hanlon and Heitzman (2010) use the term "tax

avoidance" to refer to a continuum of tax planning strategies where municipal bond investments is at one end and terms such as evasion and sheltering are at the other end. According to the research question, this study is interested in all tax reductions broadly. Accordingly, this study follows the broad view of tax avoidance and defines it as tax reductions by any means, regardless of their legality. In this regard, it is important to emphasise that tax avoidance is not exactly the same as book-tax differences. That is, book-tax differences include information about earnings quality besides information on tax aggressiveness (Dyreng, Hanlon, & Maydew, 2008). In addition, tax avoidance activities usually result in book-tax differences, which can be classified into temporary and permanent differences (Rego, 2003). These differences are between accounting income and taxable income, while tax avoidance can further be done through other activities besides those resulting in book-tax differences.

Corporations can engage in tax avoidance through a variety of means. For example, multinational corporations usually engage in corporate tax avoidance by moving profits artificially from high-taxed jurisdictions to low-taxed ones (Davies, Martin, Parenti, & Toubal, 2018; Gravelle, 2009). In this regard, transfer-pricing techniques, which are used for pricing within firm transactions, have been widely suspected (Desai, Foley, & Hines, 2006). Although the guidelines of the use of transfer pricing generally recommend the use of the "arm's length principle", in practice there are transactions that do not have a comparable market price, such as those associated with intellectual property (Barker, Asare, & Brickman, 2017; Bartelsman & Beetsma, 2003).

The use of transfer pricing is typically associated with establishing subsidiaries in so-called "tax havens". This refers to countries that offer no or very low tax rates, among other characteristics, such as a lack of transparency, bank secrecy and simple procedures for setting up new businesses (Alstadsæter et al., 2018; Gravelle, 2009; Hanlon & Heitzman, 2010). Tax havens can therefore facilitate tax avoidance by allowing companies to move taxable profits away from high-tax jurisdictions, as well as by reducing the home-country tax burden associated with foreign income (Desai et al., 2006). Tax haven examples include Ireland, Luxembourg, Hong Kong, Singapore, various Caribbean island nations and some jurisdictions in the US and China. Tax havens are thought to have less than one percent of the world's population but host more than five percent of the global

foreign employment (Hanlon & Heitzman, 2010). This is because tax policies are considered a vital factor in decisions around foreign investment allocation, particularly when other factors are equal (Desai et al., 2006). In this regard, multinational corporations can use tax havens to reduce their total tax burden through locating most of their operations in these countries, as well as through reducing the prices charged by their affiliates operating in high tax-rate jurisdictions for the products and services provided to their tax haven affiliates (Davies et al., 2018; Desai et al., 2006). For example, Tyco, a Bermuda-based financial services firm, reduced its effective tax rate from 36% to 23% within five years between 1996 and 2001 by shifting profits from high-tax jurisdictions to its subsidiaries in low-tax jurisdictions (Kim, Li, & Zhang, 2011). In addition, multinational corporations can engage in tax avoidance through tax havens by restructuring other transactions, such as financing structure, dividend repatriations and intrafirm royalty payments (Desai et al., 2006). For example, for financing structure, multinational companies can reduce their overall tax burden by borrowing more in high-tax jurisdictions and therefore increasing interest expenses (Bartelsman & Beetsma, 2003). Simultaneously, they reduce borrowings (in favour of equity) in low-tax jurisdictions to recognise most of the profits in these jurisdictions. This component of tax avoidance done across different jurisdictions can be referred to as "the international component of tax avoidance", while the domestic component of this classification often includes activities such as under-reported income from domestic activities (Fuest & Riedel, 2009).

Gallemore et al. (2014) divide tax avoidance strategies into simple strategies and complex strategies. Simple strategies include investing in tax-exempt municipal bonds, whereas complex strategies include engaging in intangible holding companies, corporate-owned life insurance, cross-border avoidance strategies, debt-equity hybrid securities and tax shelters. An example that shows how firms engage in tax avoidance in a complicated manner is that of Enron, illustrated by Kim et al. (2011). The company converted its tax department into a business unit with annual revenue targets, including manufacturing accounting income technically through tax provisions. In effect, Enron engaged in 12 structured tax-avoidance transactions between 1995 and 2001 in order to increase its accounting income but not its tax burdens. For example, Enron reported a capital loss of around $189m on its 1995 tax return associated with Project Tanya, but did not report it

for financial statement purposes, in order to avoid reducing the accounting profit. In addition, Enron reduced its tax provisions to correspond to this loss. This resulted in increasing the profit reported in the income statement by around $66m. These profits, further, had been booked between 1995 and 1999. The overall effect of this project was that Enron could keep reporting negative taxable income while simultaneously maintaining a high growth rate in its accounting income. This, accordingly, resulted in increases in its stock market price that made a bubble throughout the same period, leading to a stock price crash in 2001.

However, it is essential to emphasise that tax avoidance does not necessarily reflect improper behaviour. That is, tax laws sometimes are unclear regarding some complicated transactions in practice (Dyreng et al., 2008). This can be a reason behind the emergence of tax avoidance definitions that are based on the ability of firms to maintain low effective tax rates over a long time period (e.g., Dyreng et al., 2008). These broad definitions have also become popular because tax avoidance activities, broadly defined, are difficult to comprehensively identify because they include legal activities like those embedded in investing decisions, such as the purchase of tax-exempt bonds (Slemrod, 2004), as well as activities that violate tax laws.

On the other hand, there are concerns for firms and managers associated with engaging in corporate tax avoidance. One major concern is arguably the reputation of firms and executives. Graham et al. (2014) find that 69 percent of executives ranked reputational concerns as an important factor in tax avoidance decisions. In addition, there is an ongoing debate as to whether tax avoidance is part of corporate social reasonability (Davis, Guenther, Krull, & Williams, 2016), e.g. whether a firm that engages in tax avoidance may be considered an unethical organisation in society. This can lead to losing customers and in turn can negatively affect business operations (Graham et al., 2014). However, Gallemore et al. (2014) find no evidence that firms or top executives that engage in tax avoidance suffer any significant reputational costs. Another concern associated with corporate tax avoidance is its effect on financial reporting, which can lead to capital market scrutiny (Graham et al., 2014). These costs of corporate tax avoidance can then outweigh the benefits, therefore leading companies to avoid it. However, the decision not to engage in tax avoidance when the benefits outweigh the costs, which is the so-called under-

sheltering puzzle, is still an unjustifiable decision in the literature (Gallemore et al., 2014). On the other hand, shareholders may have concerns with tax avoidance behaviour. That is, the diversion opportunities that tax avoidance provides to managers could outweigh the benefits to shareholders resulting from corporate tax avoidance (Desai & Dharmapala, 2009b). A traditional view of tax avoidance assumes that tax avoidance activities increase value for shareholders. However, Desai and Dharmapala (2009b) suggest that this association depends on firm governance. Specifically, they suggest that the increased opportunities for managerial diversion in poorly governed firms can offset the increase in after-tax value, which results in a net effect that may be unfavourable to shareholders.

2.2.2. The role of executives in tax avoidance practice

A question arises as to whether top executives or tax directors play a bigger role in corporate tax avoidance. Typically, CEOs are not tax experts and are unlikely to deeply understand tax strategies; they instead understand the nature of the industries they operate in, the competitive environment, operational performance, opportunities for expansion, and how to generate profit (Dyreng et al., 2010). Accordingly, at first thought, CEOs might not seem to have an influence on corporate tax avoidance. Similarly, it might be difficult to think at first that a top executive could directly influence corporate tax avoidance (Dyreng et al., 2010). Armstrong, Blouin and Larcker (2012) refer to two scenarios for the role of executives in corporate tax avoidance. The first is the direct engagement of executives in corporate tax avoidance through directing tax directors. The other is indirect engagement in corporate tax avoidance through the different decisions that they take (operating, investing and financing decisions), with the advice of tax directors and tax experts.

According to Armstrong et al. (2012), tax directors typically perform three main tasks: compliance with tax laws, including filing different tax forms; advising executives regarding the tax consequences of different firm activities; and examining tax-planning opportunities. Accordingly, their compensation contracts should partially depend on direct measures such as fines paid due to noncompliance for their duty of compliance, whereas to depend on firm financial performance for advisory and planning duties (Armstrong et al., 2012). This is supported to a great extent by a survey conducted in 2004 and 2005 by

the Tax Executive Institute (TEI), which shows that tax directors spend most of their time in research and in compliance (33% and 28% respectively), and just 9% of their time performing operational issues (Tax Executive Institute, 2004-2005). In addition, the survey shows that most tax directors report to CFOs. Therefore, the results of this survey generally show that tax directors, despite possibly performing an advisory role in different corporate decisions (operating, investing and financing), are not the primary executives in charge of these decisions, and therefore they cannot independently affect corporate tax avoidance.

On the other hand, according to Dyreng et al. (2010), top executives (particularly CEOs) can influence corporate tax avoidance through setting the "tone at the top" for tax-related activities e.g., shifting focus between functional areas, allocating resources to hiring different advisors (including tax experts), and intervening in designing the compensation contracts of tax directors. In this regard, the findings of some empirical studies (e.g., Hsieh et al., 2018; Feng, Ge, Luo, & Shevlin, 2011; Jiang, Petroni, & Wang, 2010) suggest the possibility that CFOs may play a crucial role in corporate tax avoidance due to their direct responsibility for financial reporting. On the other hand, Rego and Wilson (2012) argue that top executives are the main drivers of corporate tax avoidance, and that they dictate it through intervening in the compensation contracts of tax directors and accountants. Thus, following prior research (e.g., Rego & Wilson, 2012; Armstrong et al., 2015), this study builds its analysis on the notion that corporate tax avoidance decisions are mainly taken by top executives, and that the role of tax directors is just an advisory one.

2.2. Long-term executive pay literature

2.2.1. Stock options background

Prior research shows that equity-based compensation was introduced in order to closely tie executives' interests to shareholders' (e.g., Allcock, 2012), due to the historic weak link between non-equity-based compensation and firm performance (Seo & Sharma, 2018; Yermack, 1995). In addition, executives' activities are difficult to observe and verify, leading to the need for equity-based compensation, in order to tightly tie executives' wealth to shareholder value (Chen, Ke, & Liu, 2017; Bebchuk & Fried, 2004). Further, accounting measures have weaknesses in tying executive interests with those of firms due to their inability to reflect the nonfinancial aspects of firm performance, including current growth

opportunities (Bebchuk & Fried, 2004; Kim et al., 2010). For example, in order to increase accounting profits, managers may reduce some expenses – such as marketing expenses, and research and development activities, which can make the company more profitable in the future (Satheesh Kumar, 2010). Further, accounting measures might fail to reflect the economic reality (Elkhashen & Ntim, 2018). In addition, managers may engage in earnings management practices in order to manipulate earnings figures, which may have severe negative long-term consequences (Fama, 1983). Thus, using accounting measures as a tool for performance measurement generally makes managers favour short-termism. Accordingly, long-term executive pay was introduced in order to motivate managers to maintain a long-term focus and to closely tie their compensation to firm performance.

However, managers might have ways to weaken this link and to get high levels of compensation not linked to any value generated for shareholders. Some empirical research finds that equity-based compensation plans seem to generally favour managers' interests over shareholders'. For example, in 1998, the Citigroup CEO received more than $52m in compensation as well as exercising $156m in reloading options, while in the same year the shareholder return was -93% (Satheesh Kumar, 2010). More recently, Evan Spiegel, Snap CEO, was awarded $638m in compensation – most in the form of stocks – for 2017, the same year the company lost $3.4b (Fiegerman, 2018).

Stock options are arguably the most popular form of long-term executive pay. These options give executives the right to buy a certain number of shares at some point in the future at a price determined in the options' issue date; therefore, managers can benefit if share prices rise (Tricker, 2012; Mallin, 2013). The logic behind using stock options is to link executives' pay with the contribution they make to firm value, in the form of increasing share price. The popularity of using stock options to compensate managers might be attributed to the favourable tax treatment, where both companies and executives prefer stock options over other forms of compensation (Kim, Nofsinger, & Mohr, 2010). Companies are required to record an accounting cost only if they grant options at a price lower than the current market price, which is not the case for most options granted. However, since 2005, FASB requires companies to expense stock options, which could make them less attractive (Kim et al., 2010). On the other hand, stock options' favourability to executives is twofold (Kim et al., 2010); first, managers can identify the year in which

they exercise the options; therefore, they can control when the tax burden occurs. Second, stock options are usually treated as capital gains, which are generally subject to tax rates lower than income tax rates.

However, stock options do not always align managers' interests with those of shareholders. That is, the interests of shareholders are not the same as those of options holders. Shareholders invest their money in the firm and experience a probability of loss equal to the probability of profit, while options holders do not have the downside that shareholders are exposed to (Tricker, 2012). Further, stock options might encourage executives to take on sub-optimal levels of corporate risk (Ju, Leland, & Senbet, 2014). For example, Aboody, Levi and Weiss (2018) find a positive association between stock options and the risk level taken by managers. Particularly, the study finds that the reduction in using stock options that resulted from the issuing of FAS 123R, which requires companies to expense stock options, led risk-averse managers to reduce the risk taken by reducing operating leverage, where they reduced fixed costs in favour of variable costs.

Further, empirical research on stock options shows that executives' stock options are weakly associated with firm value. Habib and Ljungqvist (2005), based on data from 1,307 US publicly traded firms, find that CEOs' stock options are insufficiently linked to firm value, where there is sometimes a positive association between declines in firm value and high levels of CEO stock options. Furthermore, the study finds evidence that boards that have taken subsequent corrective action and redesigned stock options schemes achieve better subsequent performance. Bebchuk and Fried (2004) argue that while using stock options may be considered a promising way to link executives' pay to their performance, the problem lies in the design of options plans, which tend to be skewed in favour of executives in the vast majority of cases.

2.2.2. Do stock options really reward good performance?

Prior literature shows that the use of the absolute change in share price as a basis for evaluating executive performance might sometimes be misleading (Ledford & Lawler III, 2018). This is due to other important factors that affect firms' share price, unrelated to managers' performance. Examples include the strength or weakness of a country's economy (e.g., interest rate rise or fall) and the falling/rising trend of the market or of a

specific sector (Bebchuk & Fried, 2004; Kim et al., 2010). That is, when the interest rate falls, for instance, it leads to increases in share prices regardless of managers' performance, which means managers get money they do not deserve, implying that shareholders' money is inefficiently spent. On the other hand, when the whole market (or a specific sector) declines because of poor economic conditions, for instance, stock options might be unfair for executives who performed well, because they can end up with valueless options (Kim et al., 2010). Another problem associated with the absolute change in share price is that shareholder return includes both the increases in share price and the dividend. Accordingly, managers may reduce the dividends paid to shareholders and try to use the cash to increase share price instead (Kim et al., 2010). Furthermore, stock options might lose their ability to motivate managers if the market stock price falls far below the exercise price, as the increase in firm value needed to cash the stock option would be unachievable (Kim et al., 2010).

Accordingly, techniques adjusting for share price movements that are unrelated to managers' performance have emerged. These include, for instance, linking options' exercise price to criteria such as achieving a share price rise that exceeds that of the bottom 20 percent of the sector (Bebchuk & Fried, 2004). This is generally done through indexing the exercise price to the performance of competitors or the broader market (such as Standard & Poor's 500) so that the exercise price can go up and down in response to the market's (or competitors') movements (Tricker, 2012; Johnson & Tian, 2000; Rappaport, 1999). This technique allows boards to well remunerate managers with outstanding performance and penalise those who performed poorly. That is, indexed options avoid rewarding or penalising executives for market rises/falls that are beyond their control. In addition, Ju et al. (2014) argue that indexed options are better than traditional ones for encouraging managers to adopt the appropriate level of corporate risk. This is because indexed options are likely to be in the money at all times, and thus motivate managers, while traditional options might go deeply out of the money and thus provide little incentive for managers to bear high risks because the options are unlikely to finish in the money.

However, Rappaport (1999) identifies some obstacles facing the implementation of this approach. The first is that executives may be reluctant to accept switching from fixed-price options to indexed ones. In order to overcome this obstacle, Rappaport (1999)

proposes persuading executives based on the notion that returns from indexed options will be higher than from fixed-price ones for superior performance, as well as persuading them by providing a higher number of options at a lower price. Another obstacle is that board members themselves may have to adopt the same rule in terms of switching their fixed-price options to indexed ones in order to be able to persuade executives to accept this kind of options. A third obstacle is that indexing generally makes managers bear higher risks. For example, if an index is linked to the average performance of companies operating in a sector, this means that executives of half of the sector's companies will gain nothing from their options (Murphy, 2002; Bebchuk & Fried, 2004). Accordingly, the higher risk borne by executives might lead them to try to increase the fixed segment of their compensation. Accordingly, Bebchuk and Fried (2004) suggest a moderate form of indexing where the index moves partially according to share price movements. Despite the advantages of indexed options over fixed-priced ones from the shareholders' perspective, Bebchuk and Fried (2004) state that the overwhelming majority of executives favour traditional options over indexed ones. The study attributes this to managerial power theory, where managers seek a weak association between their compensation and performance. Some empirical research finds that managers generally benefit more from traditional options than they could from indexed ones (Angel & McCabe, 2002). Bebchuk and Fried (2004) highlight the reasons why managers favour traditional options over indexed ones. One reason is that they can get greater benefit, equal to that of the indexed options plus that of the uncontrolled movements of the whole market (or firms' sector) – in the event of a rising trend (Bebchuk & Fried, 2004). Another reason is that using indexed options would directly compare managers' performance with their peers' in the same sector or in the market generally; such comparison is unwelcome, especially in cases of poor performance.

On the other hand, executives can use some excuses to oppose indexed options (Bebchuk & Fried, 2004). One excuse is the tax benefits that result from the use of traditional options compared to indexed ones. According to FASB rules, the increase that results from adjusting indexed options for the appreciation of the market is recognised as a taxed benefit, which was not the case for traditional options. Accordingly, managers argue that traditional options result in higher reported earnings and therefore lead to increased firm value and share price. Even after FASB asked firms to expense stock options

in 2004, most managers kept using fixed-price options rather than indexed ones in order to keep enjoying higher compensation that was poorly linked to their performance (Bebchuk & Fried, 2004). By now, accounting standards require firms to value the options based on their net present value and to show the associated charge (Tricker, 2012). This refutes the excuses of the tax advantages of indexed options over fixed-priced ones.

On the other hand, Levmore (2001) provides a different explanation for the prevalence of traditional options over indexed ones, based on signalling theory and risk-taking backgrounds: indexed options might push managers to engage in very risky projects and make shareholders bear undesirable risks. In addition, managers might hesitate to refuse fixed-priced options in order not to appear sceptical about the firm (Levmore, 2001). They can intervene in firm disclosure content and its timing before the grant date in a way that reduces the share price (Bebchuk & Fried, 2004; Aboody & Kasznik, 2000). In addition, even when the market share price goes below the grant exercise price, there are still ways to compensate managers, such as repricing the stock options or providing them new options at a lower price (Bebchuk & Fried, 2004).

This strategy could be harmful for shareholders' value, as managers may engage in very risky projects in order to dramatically push market stock price (Kim et al., 2010). If the projects succeed, they can gain significant wealth from the increases in share prices. On the other hand, if the projects fail, leading to decreases in share price, they can simply ask to lower the strike price or to get new options.

Repricing or new options might be acceptable when share prices fall for reasons beyond managers' control. However, it is argued that even in cases of uncontrollable decrease in market price, no repricing should be conducted for fixed-price options, based on the notion that options are for motivating managers in the long run. Therefore, as markets normally go up in the long run, they will correct for short-term falls and thus the options will be valuable again (Bebchuk & Fried, 2004; Jin & Meulbroek, 2002). In fact, managers would prefer this practice over indexed options, at least because the fixed-price options technique justifies any large benefit they might gain; the justification will simply be that the market share price has risen, regardless of whether this is because of executives' performance or other uncontrollable market factors. Further, when the stock market price falls, this practice would justify repricing, based on the need to keep and motivate

managers in times of market falls. However, this last excuse was refuted empirically by Brenner, Sundaram and Yermack (2000), who found that poor firm performance, not general market movement, is the main reason behind repricing fixed-price options. The study also found that the average decrease in exercise price was approximately 40 percent of the original exercise price. Such practices might weaken managerial incentives. In addition, there are perceptions that stock options played a role in the governance failure of the 1999s and 2000s (Kim et al., 2010).

Accordingly, other forms of long-term stock-based compensation have emerged. One form is restricted stocks, where companies require a certain period to pass (e.g. 10 years) or a certain objective to be achieved before managers can sell the stocks (Kim et al., 2010). This tool has increasingly been used by companies after the scandals of the early 2000s; restricted stock grants accounted for 30 percent of total long-run incentives in 2007 compared to 12 percent in 2002 (Kim et al., 2010).

This tool is argued to be effective especially when accompanied by so-called "target ownership plans", where companies require managers to hold a certain amount of company shares (Bebchuk & Fried, 2004). Other forms of equity-based compensation include outright share issue, which overcomes one of the disadvantages of stock options – the absence of the downside (Satheesh Kumar, 2010).

In addition, the exact time of cashing options should be controlled. Empirical research finds that when managers have the ability to manage the timing, they could manage internal information and firm disclosures such that share prices are in their favour (e.g., Carpenter & Remmers, 2001; Lerach, 2002). Accordingly, boards and options designers should add some conditions regarding trading options. A condition can be trading the options gradually over a period of time, not in a single day, and/or asking managers to announce their intention to trade in advance (Satheesh Kumar, 2010; Bebchuk & Fried 2004). For example, if an executive has options to buy one million shares, s/he can be asked to exercise 100,000 shares per year for 10 years (Satheesh Kumar, 2010). This might give a reasonable assurance that executives will try to maintain good performance for the firm in the long term and therefore for the share price at all times. Conditions may also include restricting managers to only trade in the weeks that follow the announcement of quarterly financial results (Bettis, Coles, & Lemmon, 2000). Another

problem associated with options is so-called "backdating", where many boards and executives falsify the issue date of options so that they are lower than the current market price on the real date of issue. In 2006, it was found that more than 130 companies engaged in this practice, which led to more than 50 executives being fired after shareholders found out about it (Kim et al., 2010).

The above discussion shows that stock options and other similar forms of equity-based compensation do not always compensate managers for their good performance. Further, managers can intervene in all stages of these equity-based compensation tools, including but not limited to affecting the market share price before exercising the options, repricing, reloading and backdating.

2.2.3. The role of remuneration committee in long-term executive pay effectiveness

While addressing executive compensation, a question arises regarding the role of the remuneration committee. The remuneration committee is a sub-committee of the board of directors, responsible for recommending the compensation packages of executive directors (Tricker, 2012). According to Greenbury's report in 1995, which was later incorporated in the UK corporate governance code, all remuneration committee members should be independent non-executive directors, in order to avoid the intervention of executives in setting their own compensation (Tricker, 2012; Financial Reporting Council, 2016).

According to the UK corporate governance code, the company's chairperson can be a member, not a chair, of the committee only if s/he was appointed in his/her position in the company as an independent chairperson. The UK corporate governance code stresses that executives' compensation packages should be designed to boost long-term success (Financial Reporting Council, 2016). The challenge for the committee is to design executive compensation in a fair way. This can be through compensating executives for their efforts and outstanding performance as well as motivating them to focus on long-term success, while at the same time avoiding rewarding failure in order not to hurt shareholder value (Tricker, 2012). Despite being independent directors, members of this committee may be loyal to the top executives who are usually behind their nomination. For example, Satheesh Kumar (2010) states that despite the need for a large number of independent directors, reaching 50,000, for the Indian market, no any advertisements for independent

directors have been found, implying that most, if not all, independent directors are nominated directly by executives, and therefore become loyal to them. Thus, the recommendations of independent directors who act as members of the remuneration committee may not be entirely independent.

Further, Bender (2011) argues that remuneration committee members might be biased in collecting the data used in identifying executive compensation levels. That is, they collect the data based on self-selected elite peers instead of based on the general market. This is in order to skew the compensation in executives' favour. Another issue is that non-executive directors of a company might themselves be executive directors in other companies. Accordingly, remuneration committee members, if they are executives in other companies, might have an interest in setting high levels of compensation, unrelated to performance, in order to inflate compensation levels in the market (Mallin, 2013). This would help them obtain the same high levels from the companies where they act as executives.

3. Theoretical framework

Agency theory has been widely employed in explaining the relationship between shareholders and executives. The origin of this theory dates back to the 1960s and early 1970s, when economists were investigating the problems associated with risk sharing (Wilson, 1968; Arrow, 1965). Specifically, they investigated the problems arising when cooperating parties have differences in the accepted level of risk (Eisenhardt, 1989). Later, these problems were extended by agency theory to include the problems that arise between cooperating parties who have different goals (Jensen & Meckling, 1976; Eisenhardt, 1989). Particularly, agency theory addresses the agency relationship, where one party (the principal) delegates another party (agent) to perform work on their behalf (Jensen & Meckling, 1976). Accordingly, agency theory attempts to solve two kinds of problems that can arise between these two parties; namely the agency problem and the problem of risk sharing (Eisenhardt, 1989). The agency problem arises when the goals of the two parties conflict and, at the same time, the principal has difficulty verifying whether the agent is performing appropriately (Elmagrhi, Ntim, Elamer, & Zhang, 2019). On the other hand, the problem of risk sharing arises when the two parties are comfortable with different levels

of risk, and in turn have differences in the desired strategy and course of action Accordingly, agency theory focuses on identifying the ideal contract that can govern the relationship between the principal and the agent, considering some assumptions about people such as being self-interest and risk aversion (Eisenhardt, 1989). In corporations, shareholders delegate responsibility for directing and controlling the company to the board of directors. The board of directors in turn hires managers to manage the company's activities. However, the goals of these managers may conflict with those of shareholders. Accordingly, agency theory aims to identify the most efficient contract that best governs the relationship between shareholders and managers.

According to the agency relationship, risk-neutral investors expect managers to prioritise profit maximisation, including exploiting opportunities to reduce expenses. This might include engaging in corporate tax avoidance (Hanlon & Heitzman, 2010). Accordingly, boards of directors, if they view tax avoidance as worthwhile, might design the compensation contracts of managers in a way that is based on after-tax performance, which could lead them to take efficient decisions related to tax, including tax avoidance strategies (Hanlon & Heitzman, 2010). However, managers can direct corporate decisions in a way that reflects their own interests. Desai, Dyck and Zingales (2007) and Desai and Dharmapala (2006, 2009b) argue that when managers are encouraged to engage in tax avoidance activities, they may structure corporate activities in a complex way so as to divert resources towards their private interests.

Based on agency theory, two competing approaches have been widely used in explaining executive compensation: the optimal contracting approach and the managerial power and rent extraction approach (Sarhan, Ntim, & Al-Najjar, 2018; Elmagrhi, Ntim, Wang, Abdou, & Zalata, 2018). While the optimal contracting approach employs executive pay as a solution to the agency problem between shareholders and managers, the managerial power and rent extraction approach perceives executive pay as part of the agency problem between the two parties (Bebchuk, Fried, & Walker, 2002).

According to the optimal contracting approach, executive compensation contracts are perceived as a tool that is used to minimise agency costs between executives and shareholders (Bebchuk et al., 2002). This approach assumes that boards of directors seek to maximise value for shareholders and use the design of compensation contracts to this

end. Accordingly, the design of compensation contracts might encourage managers to engage in tax avoidance, which can help maximise shareholder value. Therefore, this theoretical framework predicts that executive pay linked to firm value is positively associated with corporate tax avoidance.

Managerial power theory presumes that managers have power that can allow them to influence compensation contracts (Elmagrhi et al., 2018; Bebchuk et al., 2002). This suggests that managers can intervene in the design of their own compensation contracts, which accordingly will deviate from the optimal design. This sub-optimal design will provide managers with excessive compensation, where the excess constitutes rents (Elmagrhi et al., 2018; Bebchuk et al., 2002). This excessive compensation, including stock options, might lead managers to engage in tax avoidance to maximise firm value. However, when managers are encouraged to engage in tax avoidance practices, they may exploit this opportunity in extracting rents (Desai & Dharmapala, 2006, 2009b). Therefore, according to the managerial power and rent extraction approach, managers should not be encouraged by firms to engage in tax avoidance so as not to provide managers with opportunities to divert company resources for private benefit. The distinct characteristics of tourism-related firms may contribute to this approach, since, given the expected high business and financial risks as well as the sensitivity embedded in this sector, boards of directors of tourism-related firms may be unwilling to bear additional risks. This might include the risks associated with engaging in corporate tax avoidance. This approach, therefore, predicts a weak/no association between long-term executive pay and corporate tax avoidance.

Given the mixed theoretical framework discussed above, corporate governance is expected to have mixed influences on this link. On the one hand, according to agency theory and the optimal contract approach, having strong corporate governance systems might strengthen the association between long-term executive pay and corporate tax avoidance. This is based on the notion that linking executive compensation to shareholder value aligns the interests of managers with those of shareholders. However, when the business risk is already high, strong corporate governance system might discourage bearing further risks, thus limiting managers' ability to engage in corporate tax avoidance. According to the managerial power and rent extraction approach, managers may exploit

tax avoidance practices to divert firms' resources; therefore, well-governed firms are expected to try to limit managers' ability to engage in tax avoidance practice. Accordingly, in well-governed firms, the link between executive pay generally and tax avoidance is expected to be weak.

On the other hand, in poorly governed firms, an optimal contract for executive compensation will not be easily reached. Thus, executives are expected to have higher pay, including long-term pay (Elmagrhi et al., 2018; Bebchuk & Fried, 2004; Armstrong et al., 2015). Therefore, they may have incentives to engage in tax avoidance in order to increase share prices, therefore gaining the associated economic benefits. Therefore, in these poorly governed firms, there might be a positive association between long-term executive pay and corporate tax avoidance.

The possibility of tax avoidance being discovered by tax authorities can play a role in making managers reluctant to engage in tax avoidance (Crocker & Slemrod, 2005); if discovered, tax avoidance practices might result in losses for both managers and companies. Further, Desai et al. (2007) argue that strong enforcement by tax authorities can mitigate this situation through reducing managers' ability to engage in tax avoidance. If so, this might be in favour of shareholders through reducing managers' ability to divert corporate resources. Accordingly, this also is expected to weaken the association between executive pay generally and corporate tax avoidance.

4. Empirical literature review and hypotheses development

4.1. Long-term executive pay and corporate tax avoidance

Tax avoidance determinants have received much attention from academics over recent decades. The findings are inconclusive; surprisingly little empirical evidence, if any, exists on the possible effects of sectorial characteristics on these determinants. One stream of the literature addresses firm characteristics that might be associated with corporate tax avoidance. For example, Attwood et al. (1998) find that firms with greater tax planning opportunities use after-tax-based compensation to ensure that managers consider tax consequences in their decisions. In particular, the study finds that firm size, multinational operations, capital intensity and the number of operating segments are positively associated with the use of after-tax performance measures, but reveal a negative association between

leverage and the use of after-tax performance measure. Similarly, Rego (2003) finds that US multinational companies engage in corporate tax avoidance more than US domestic companies. In addition, the study reveals that firms with greater pre-tax income have higher levels of corporate tax avoidance, consistent with the notion that highly profitable firms have more resources and are more likely to engage in tax avoidance.

Another stream, which this study primarily belongs to, examines the role of corporate executives as a possible determinant of corporate tax avoidance. Agency theory predicts that linking executive compensation to shareholder value aligns the interests of managers with those of shareholders (e.g., Allcock & Filatotchev, 2010). Accordingly, the optimal compensation contract might encourage executives to engage in tax avoidance as a means of increasing their wealth and shareholder value at the same time. Particularly, providing managers with long-term executive pay, especially in the form of equities, might push them to engage in corporate tax avoidance as a means of increasing share price. Thus, a positive association between long-term executive pay and tax avoidance is expected according to this theoretical framework. On the other hand, the managerial power and rent extraction approach predicts that managers can intervene in the process of setting their own compensation and get excessive pay. In addition, according to this theory, managers are expected to direct corporate decisions to extract rents. This might include exploiting tax avoidance strategies in diverting firms' resources for private benefit. Accordingly, well-governed companies are expected to prevent managers from engaging in tax avoidance. Hence, a weak/no association is expected between executive compensation, including long-term pay, and corporate tax avoidance.

Empirically, there is some evidence shows no direct association between CEOs' compensation and corporate tax avoidance. For example, Phillips (2003), using US data drawn from the Financial Executive Institute and Fortune 500, examines whether compensating executives and business unit managers using after-tax performance leads to higher levels of corporate tax avoidance. The study finds that compensating business unit managers, not CEOs, based on after-tax performance leads to higher levels of tax-avoidance behaviour. The study attributes the absence of the association between CEOs' compensation and after-tax performance to the belief that CEOs have other reasons to focus on after-tax performance, such as job retention. However, the study expects that

compensating CEOs based on after-tax performance is indirectly associated with higher levels of corporate tax-avoidance, since CEOs can compensate business unit managers on an after-tax basis. In addition, Armstrong et al. (2012) examine the association between tax directors' compensation and tax-avoidance levels. Using data from 423 US firms, the study reveals that incentives for tax directors are significantly associated with higher levels of tax avoidance.

On the other hand, some empirical literature shows a direct association between CEOs' compensation and corporate tax avoidance. For example, using US data drawn from S&P 500, Gaertner (2014) finds a direct association between CEOs' after-tax incentives and corporate tax avoidance; further, cash compensation was found to be positively associated with the use of after-tax incentives. The study attributes these findings to the belief that CEOs are being compensated for taking additional risks. Similarly, Dyreng et al. (2010) investigate how much firms' tax avoidance behaviour that is not explained by firm characteristics can be explained by individual top executives. The study tracks the movements of 908 executives listed in the ExecuComp database from 1992 to 2006 and finds that individual executives play a significant role in determining the level of tax avoidance their firms engage in. Furthermore, Hansen et al. (2017), using US data extracted from ExecuComp and Compustat, find a positive association between CEOs' and CFOs' compensation and tax avoidance levels.

Within this stream of literature, and much closer to this study, some research pays attention to executive equity-based incentive and its links with executive behaviour around engaging in riskier policies (including tax aggressiveness). In a pioneering study, Guay (1999), using data from 278 firms, finds that the use of stock options increases the convexity of the association between CEOs' wealth and stock price, measuring the convexity as the change in managers' stock value for a given change in the volatility of stock return. Similarly, based on a US sample of oil and gas firms, Rajgopal and Shevlin (2002) investigate whether executive equity-based pay motivates managers to engage in riskier projects. The study finds evidence that stock options' risk incentives are positively associated with exploration risk taken by these firms. Similarly, Coles et al. (2006) examine the association between managerial compensation and value-critical managerial decisions. They find a strong causal relation between managerial compensation and each

of investment policy, debt policy and firm risk. In particular, their study shows that higher sensitivity of CEO wealth to stock volatility leads executives to adopt riskier policies, including increasing R&D investments, reducing PPE investments and increasing leverage levels. In addition, the findings of Williams and Rao (2006) reveal that risk incentives of CEO stock options motivate executives to engage in higher risks than they would otherwise. Furthermore, Rego and Wilson (2012) investigate equity risk incentives as a determinant of corporate tax avoidance. Based on US data, their study finds that higher equity risk incentives are associated with higher tax avoidance, consistent with equity risk incentives motivating managers to adopt riskier tax positions. Similarly, Armstrong et al. (2015), also based on US data, find a positive association between risk-taking incentives and corporate tax avoidance.

On the other hand, the literature shows only a handful of studies addressing executive compensation among tourism-related firms, none of which investigate the association between executive pay and corporate tax avoidance. For example, in the casino industry, based on US data, Gu and Choi (2004) find a positive association between CEO cash compensation and each of firm size, debt leverage, profitability and stock options, but a negative association with assets turnover. Similarly, but based on the restaurant industry in the US, Madanoglu and Karadag (2008) find a positive association between CEO cash pay and each of stock returns and profitability (return on assets). On the other hand, Skalpe (2007) investigates the CEO gender gap in tourism-related firms compared to manufacturing firms and indeed finds pay discrimination against female CEOs in both sectors, and to a greater degree in the tourism sector. Thus, no studies in the tourism sector have examined the impact of executive compensation or any of its components on corporate tax avoidance. Given the lack of empirical studies in this context as well as the mixed theoretical frameworks, this study investigates the following hypothesis:

> *Hypothesis 1: There is an association between long-term executive pay and corporate tax avoidance in tourism-related firms.*

4.2. The moderating effect of corporate governance on the pay-tax link

This study also investigates whether corporate governance moderates the association between long-term executive pay and corporate tax avoidance. Consistent with the mixed theoretical framework discussed in the previous section, empirical research on this association shows mixed results. For example, Desai and Dharmapala (2006) find a negative association between executive pay and corporate tax avoidance in poorly governed firms. They attribute this to the high initial rent extraction opportunities in these firms. On the other hand, Armstrong et al. (2015) find different effects of corporate governance on tax avoidance depending on the level of avoidance. In particular, they find evidence that board financial sophistication and its independence are positively associated with corporate tax avoidance for low levels of tax avoidance, but negatively associated with it for high levels of tax avoidance. This is consistent with the notion that board financial sophistication and its independence can mitigate agency problems associated with extreme levels of tax aggressiveness. The literature shows that corporate governance systems may differ in tourism-based firms due to their different organisational structure (Pechlaner et al., 2011). As previously indicated, Al-Najjar (2017) finds that tourism-related firms have relatively smaller board size and shorter CEO tenure. Further, he examines the impact of corporate governance on CEO pay in UK tourism-related firms and finds that each of board size, board independence and CEO age have an impact on CEO compensation. Similarly, Ozdemir and Upneja (2012) investigate the association between board structure and CEO compensation in US lodging firms. Unlike the results of other studies on the same link, they find that CEO pay is not associated with board size but is positively associated with board independence. They attribute the differences between this and other studies of the same link to the fact that the determinants of CEO pay may differ across industries. This shows the possible effects of the distinct characteristics of tourism-related firms on different constructs.

This research, therefore, explores the moderating effect of corporate governance on the association between long-term executive pay and corporate tax avoidance due to the absence of prior research on this link involving tourism-related firms. It is generally expected that the higher business and financial risks in this sector might lead executives to tend to engage in corporate tax avoidance for rent extraction purposes. Given this, together

with the notion that boards of directors in well-governed firms may be unwilling to bear further risks, leading them to try to limit managers' ability to engage in tax avoidance, this study examines the following hypothesis:

> *Hypothesis 2a: In well-governed tourism-related firms, there is a weak/no association between long-term executive pay and corporate tax avoidance behaviour.*

On the other hand, poorly governed firms are not expected to mitigate executives' tendency to engage in tax avoidance. In addition, executives in these poorly governed firms are expected to have excessive power and therefore overly pay themselves, including long-term pay. Therefore, they may have more incentive to engage in tax avoidance. Accordingly, this study examines the following hypothesis:

> *Hypothesis 2b: In poorly governed tourism-related firms, there is a positive association between long-term executive pay and corporate tax avoidance.*

4.3. The moderating effect of culture on the pay-tax link

Prior literature shows that cultural values may influence executive pay arrangements (e.g., Burns, Minnick, & Starks, 2017; Pennings, 1993; Conyon & Schwalbach, 2000; Tosi & Greckhamer, 2004) as well as corporate tax decisions (Strielkowski & Čábelková, 2015; Bame-Aldred, Cullen, Martin, & Parboteeah, 2013; Tsakumis, Curatola, & Porcano, 2007; Cummings, Martinez-Vazquez, McKee, & Torgler, 2004; Alm & Torgler, 2006; Alm, Sanchez, & de Juan, 1995). However, the literature shows no studies investigating the possible effects of cultural values on the link between them.

According to managerial power theory, managers' power and their personal characteristics are expected to influence executive pay arrangements. Further, given that managers' cultural values shape their beliefs around managing an organisation (Waldman et al., 2006), it is expected that cultural variables can impact executive pay arrangements. One possible effect of cultural values on executive pay arrangements is argued to stem from the notion that different cultures perceive money and rewards in different ways (Bloch & Parry, 1989; Tosi & Greckhamer, 2004). For example, in highly individualistic countries, managers expect to be rewarded based on their individual achievements, and therefore gaining high levels of compensation is a sign of their success, whereas in less

individualistic (highly collectivistic) cultures, members' needs, rather than their performance, might play a crucial role in shaping compensation arrangements (Greckhamer, 2011). Hofstede (1980, 2003) identified five dimensions that can constitute the cultural values of a society: individualism/collectivism, long/short term orientation, masculinity/femininity, uncertainty avoidance and power distance.

Prior studies report different links between these cultural variables and executive pay arrangements. Pennings (1993) conducted the first study in this area, examining executive compensation in the US, France and the Netherlands. He found that US executives perceive compensation differently than their European counterparts. In addition, the study attributed the differences in executive compensation arrangements between these countries, at least partially, to the cultural differences between them. Similarly, Conyon and Schwalbach (2000) investigate executive pay arrangements in ten European countries, and find that country effects have a significant role in shaping executive pay arrangements. Furthermore, Tosi and Greckhamer (2004) find that individualism is linked to total pay as well as to the ratio of variable pay to total pay. Further, the study finds that all different dimensions of CEO compensation are linked to power distance. In addition, the study reports that a particular form of CEO compensation can mean different things in different cultures.

As discussed earlier, the association between long-term executive pay and tax avoidance might be interpreted based on two competing theoretical frameworks. This, in turn, affects the way in which cultural values may affect this link. The link between executive pay and corporate tax avoidance is closely associated with the personality characteristics of managers. Thus, individualism and long-term orientation are arguably the most relevant cultural values in this context.

4.3.1. The effects of individualism/collectivism on the pay-tax link

Individualism describes the tendency of members to prioritise individual benefits and achievements over aggregated benefits or achievements of larger groups like organisations (Hofstede, 1980; Ringov & Zollo, 2007; Geletkanycz, 1997). On the other hand, collectivistic cultures describe members' tendency to prioritise group interests over individual ones (Ringov & Zollo, 2007). Accordingly, in individualistic cultures, managers

are expected to engage in corporate tax avoidance when it contributes to their compensation. Therefore, a positive association is expected between long-term executive pay and corporate tax avoidance. However, if they are encouraged by firms to engage in corporate tax avoidance, they may exploit tax avoidance practices in diverting firms' resources in a way that benefits them (Desai & Dharmapala, 2006). Therefore, given the personal characteristics of members in individualistic cultures, boards of directors in these cultures may discourage or prevent managers from engaging in corporate tax avoidance as well as may weaken the link between executive compensation generally and corporate tax avoidance. Prior research in the context of cultural values has found that the role of boards of directors on executive pay is ambiguous (e.g., Conyon & Schwalbach, 2000). Accordingly, given the mixed theoretical and empirical frameworks of the possible effect of individualistic/collectivistic cultural values on the link between executive pay and tax avoidance, this study explores this impact by testing the following hypothesis:

> *Hypothesis 3: Individualistic/collectivistic cultural values moderate the link between long-term executive pay and corporate tax avoidance.*

4.3.2. The effects of long- vs. short-term orientation on the pay-tax link

Long-term orientation as a cultural value refers to members' tendency to prefer forward-looking benefits and focus on the distant future verses short-term benefits (Hofstede, 2003; Geletkanycz, 1997; Caprar & Neville, 2012). This value can affect managers' behaviour regarding engaging in corporate tax avoidance. According to this value, managers will face a trade-off between long-term versus short-term benefits (Durach & Wiengarten, 2017). Managers in cultures with a high level of long-term orientation are expected to care more about their long-term reputation and their future career (Durach & Wiengarten, 2017). This might affect their tendency to engage in tax avoidance, especially in its broad definition that includes tax evasion. On the other hand, managers in cultures with a short-term orientation are expected to engage in tax avoidance as long as it is beneficial for them in the short term. Accordingly, they might engage in corporate tax avoidance if it will contribute to their compensation. However, Desai and Dharmapala (2006) argue that managers can exploit the opportunity to engage in tax avoidance to divert firms' resources for their benefit. This might moderate the possible positive association between long-term

executive pay and corporate tax avoidance in the short term. In addition, the sectorial characteristics of the tourism sector, especially its sensitivity and its higher business and financial risks, might affect this link, where managers may prefer short-term benefits as compensation for the high risk they bear. Thus, given this mixed theoretical framework of the effect of long-term vs. short-term cultural values on the link between long-term executive pay and corporate tax avoidance, this study explores this link and tests the following hypothesis:

Hypothesis 4: The long- verses short-term orientation cultural value moderates the link between long-term executive pay and corporate tax avoidance.

5. Research design

5.1. Data and sampling

Panel A of Table 2.1 illustrates the sample selection procedures of this research. The initial sample includes all tourism-related firms that are available on DataStream. The availability of executive pay data (particularly equity-based) in DataStream was the key factor in identifying the sample size and the sample period. This data item is still growing in the database and is not yet available for many tourism-related firms around the world; this is attributed to the lower level of transparency in many countries. This resulted in the exclusion of a big number of tourism-related firms, as shown in Table 2.1. The research sample period is seven years, from 2010 to 2016, chosen due to the absence of data on many variables before 2010, and because data from 2016 was the latest available at the time of data collection. Specifically, there is data for 1,880 tourism-related firms available in DataStream, from 110 countries. However, long-term executive pay data is available only for 129 of these firms (approximately 7 percent). Another twelve tourism-related firms were excluded due to other missing data. Therefore, the final sample was 117 tourism-related firms (from 25 countries[9]) for the period 2010-2016 (seven years), constituting 819 firm-year observations.

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[9] Australia, Brazil, Canada, Chile, China, France, Germany, Greece, Hong Kong, Ireland, Italy Japan, Malaysia, New Zealand, Philippines, Singapore, South Africa, South Korea, Spain, Sweden, Taiwan, Thailand, Turkey, the UK, and the US.

Table 2.1: Sample selection procedures

Panel A: Sample selection	No.	
Total number of tourism-related firms available on DataStream	1,880	
Tourism-related firms that do not have long-term executive pay data available	(1,751)	
Firms with incomplete other data apart from equity incentives	(12)	
Total sample	**117**	
Panel B: Classification of final sample by tourism sub-sectors	No.	%
Hospitality and travel	44	37.6
Entertainment	27	23.1
Airlines	25	21.4
Restaurants	21	17.9
Total ample	**117**	**100**
Firm year observations (2010-2016)	**819**	

Despite the relatively small number of firm-year observations in the sample compared to the initial one, it is still much higher than prior research in this area (e.g., Gaertner, 2014). In addition, most prior research is exclusively US-based, as the Compustat ExecuComp database is a significant source of data on executive compensation, mainly for large US firms. Data on tax avoidance, corporate governance, and control variables were also collected from DataStream, whereas country-level data were collected from international institutions' websites: IMF (GDP data), the World Bank (inflation data), Transparency International (corruption data) and Hofstede Insights (cultural data).

The classification of the final sample is presented in Panel B of Table 2.1 over tourism sub-sectors. The hospitality and travel sub-sector constitutes the largest proportion of the final sample, with approximately 37.6 percent. This sub-sector includes travel agencies, hotels, resorts and transportation services other than airlines. The second largest sub-sector in the final sample is entertainment firms, at approximately 23.1 percent, including gaming companies and theatres. The sub-sector of airlines and aviation companies, including supporting industries, comes third, with approximately 21.4 percent

of the final sample. Finally, the sub-sector that includes restaurants and cafes is smaller, with approximately 17.9 percent of the final sample.

5.2. Variables and measures

Corporate tax avoidance is the dependent variable of this study. According to Hanlon and Heitzman's (2010) review of tax-avoidance measures, the measurement choice of corporate tax avoidance should depend on the research question. This study investigates the central question of whether long-term executive pay motivates managers to engage in corporate tax avoidance, as well as whether corporate governance and cultural values moderate this link. Therefore, this study links long-term executive pay to tax avoidance practices, regardless of their legality. Accordingly, this study follows Dyreng et al. (2008) and Hanlon and Heitzman (2010) and defines tax avoidance broadly, as the reduction in tax burden as a ratio to pre-tax accounting income. Effective Tax Rate (ETR) is the most common measurement used by academics as a proxy for corporate tax avoidance (Hansen et al., 2017; Armstrong et al., 2015; Rego, 2003; Phillips, 2003; Desai & Dharmapala, 2006; Gaertner, 2014; Dyreng et al., 2010; Armstrong et al., 2012; Rego & Wilson, 2012; Gallemore et al., 2014).

The literature shows a number of methods for ETR calculation, depending on a study's research question. Pre-tax accounting income is usually used as the denominator of ETR calculation. On the other hand, different numerators are used in literature, including cash tax paid and tax expense. In addition, some research employs the so-called "long-run ETR" as a measurement for corporate tax avoidance. The numerator of this measure is the sum of tax expense (or cash tax paid) over a number of years, whereas the denominator is the sum of the pre-tax accounting income for the same years.

Cash ETR is distinct in considering deferral strategies. However, it suffers from some weaknesses. Most importantly, it does not consider the changes in tax accounting accruals. In addition, it does not match between numerator and denominator in cases where taxes from previous years are paid in the current year (Hanlon & Heitzman, 2010).

In addition, this study is concerned with tax avoidance that mainly affects firm value, particularly in the long term, since the value of long-term executive pay depends on firm value, and managers usually cannot cash it until some years have passed. Accordingly,

this study is interested in the reduction in tax burden (expressed as tax expense), not the reduction in the cash tax paid in the current year. In this sense, Armstrong et al. (2012) find a negative association between accounting ETR and executive compensation, whereas cash ETR failed to have any association with executive compensation in the same study; the study concludes that accounting ETR is a more informative measure reflecting managers' tax-related behaviour. This is confirmed by Graham et al. (2014), who find that 84 percent of executives of publicly traded firms care about accounting ETR more than cash tax paid (cash ETR). Hence, following Hansen et al. (2017), Armstrong et al. (2015), Rego (2003) and Phillips (2003), this study calculates ETR as the income tax expense of a year divided by pre-tax expense of the same year.

In order to improve the robustness of the empirical results, and due to the limitations of accounting ETR (see for example Phillips, 2003, pp. 852-853), this study also employs long-term ETR as an alternative measurement for tax avoidance in the sensitivity analysis. Accordingly, in this study, the employed measures of tax avoidance relate corporate tax expense, generated by taxable income, to pre-tax accounting profit. Therefore, they reflect corporate tax avoidance practices. In this sense, high ETR reflects low levels of tax-avoidance engagement, and vice versa. These measures, therefore, catch tax-reduction practices that arise from a wide range of tax-avoidance techniques.

The main independent variable of this study is long-term executive pay. Following prior research (Desai & Dharmapala, 2006; Armstrong et al., 2012), this study measures long-term executive pay through equity-based compensation. This is done by dividing stock options by total executive compensation. In addition, to improve the robustness of the results, the values of stock options are used as another measurement in the sensitive analysis. Corporate governance, which is employed as a moderating variable in this research, is measured directly through the scores provided by the Asset4 ESG database (a sub-database in DataStream). Asset4 ESG measures corporate governance score as the average of five categories: board structure, compensation policy, board functions, shareholder rights, and vision and strategy. This study also includes moderating variables, firm-level controls and country-level controls. The full definitions of these variables are presented in Table 2.2.

Table 2.2: Variable definitions

Dependent variable

ETR	=	tax expense in a year divided by the pre-tax accounting income of that year;
LRETR	=	sum of a firm's tax expense for seven years divided by the sum of pre-tax accounting income of the firm for the same seven years;

Independent variable

LTPAY	=	stock options divided by the total of executive compensation;
LTPAY_A	=	log of executives' stock options;

Moderating variables

CG	=	the average of five categories including, board structure, compensation policy, board functions, shareholders rights, and vision and strategy;
INDIV	=	loosely-knit social framework in which individuals are expected to take care of only themselves and their immediate families;
ORIE	=	focusing on the future orientation, including the willingness to delay short-term material or social success in order to prepare for the future. If a society has this cultural perspective, it values persistence, perseverance, saving and adaptability;

Firm-level controls

FSIZE	=	log of total assets;
BIND	=	1 if a firm has a policy regarding the independent of its board, and 0 otherwise;
RIGHTS	=	1 if a firm is owned by a reference shareholder who has the majority of the voting rights, veto, power or golden share, and 0 otherwise;
PPE	=	property, plant, and equipment divided by lagged total assets;
BSIZE	=	the total number of board members at the end of the fiscal year;
BEXP	=	1 if a firm has a policy regarding the adequate experience on its board, and 0 otherwise;
BMEET	=	the number of board meetings during the year;
CHAIR	=	1 if the chairman previously held the CEO position in the company, and 0 otherwise;
ROIC	=	(Net Income – Bottom Line + ((Interest Expense on Debt - Interest Capitalized) * (1-Tax Rate))) / Average of Last Year's and Current Year's (Total Capital + Short Term Debt & Current Portion of Long Term Debt) * 100;
LEV	=	(long-term debt + short-term debt & current portion of long-term debt) / (Total capital + short-term debt & current portion of long-term debt);

Country-level controls

INFL	=	the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling;
CORR	=	the level of perfection towards the misuse of public power for private benefit; and
GDP	=	the rate at which a country's gross domestic product changes from one year to another, where gross domestic product is the market value of all the goods and services produced in a country in a particular time period.

6. Empirical results and discussion

6.1. Descriptive statistics and bivariate analysis

The descriptive statistics reported in Table 2.3 show that the mean (median) of *ETR* across the sample is 22.6 percent (24 percent). This is, on average, close to the global average (Bunn, 2018). Effective tax rates range from 15 percent for the 25th percentile to 31 for the 75th percentile, indicating a wide variation between companies in tax expenses expressed as a percentage of pre-tax income.

Table 2.3: Descriptive statistics of all variables for all 819 firm years

Variable	Mean	Median	Std. Dev.	25th percentile	75th percentile
Dependent variable					
ETR	0.226	0.240	0.126	0.150	0.310
Independent variables					
LTPAY	0.602	0.586	0.224	0.321	0.723
Moderating variables					
CG	0.614	0.700	0.269	0.392	0.839
INDIV	0.711	0.890	0.267	0.460	0.910
ORIE	0.427	0.360	0.193	0.260	0.510
Firm-level controls					
FSIZE	6.672	6.713	0.602	6.330	7.136
BIND	0.603	1.000	0.490	0.000	1.000
RIGHTS	0.235	0.000	0.424	0.000	0.000
PPE	0.459	0.484	0.263	0.221	0.684
BSIZE	10.460	10.000	3.127	8.000	12.000
BEXP	0.839	1.000	0.367	1.000	1.000
BMEET	9.171	8.000	5.516	6.000	11.000
CHAIR	0.316	0.000	0.465	0.000	1.000
ROIC	0.122	0.087	0.162	0.042	0.170
LEV	0.567	0.470	0.926	0.268	0.664
Country-level controls					
INFL	0.020	0.017	0.015	0.009	0.030
CORR	0.731	0.760	0.123	0.750	0.810
GDP	0.026	0.022	0.025	0.017	0.026

All continuous variables are winsorized at the 5th and 95th percentiles.
Variables are defined as follows: effective tax rate (*ETR*), long-term executive pay (*LTPAY*), corporate governance (*CG*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC),* leverage (*LEV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2.

In terms of *LTPAY*, the mean is approximately 60 percent, indicating that a high proportion of executive compensation in tourism-related firms is long-term executive pay. Similarly, CG scores show a high mean (median), of 61.4 percent (70 percent). This high level of corporate governance is expected, as this sample generally consists of relatively large firms, which are usually associated with stronger corporate governance systems. However, corporate governance scores at the 25th percentile (39.2 percent) and 75th percentile (83.9 percent) indicate a wide variation between companies across the sample. In addition, descriptive statistics of moderating variables (*ORIE* and *INDIV*), firm-level controls (*FSIZE, BIND, RIGHTS, PPE, BSIZE, BEXP, BMEET, CHAIR, ROIC* and *LEV*) and country-level controls (*INFL*, *CORR* and *GDP*) show wide ranges across the sample, which generally implies that the sample has been properly selected, thus minimising the possibility of sample selection bias.

Table 2.4 illustrates the correlation matrix of variables included in regression models to test for multicollinearity. Apart from the expected high and significant correlation between *INDIV* and *ORIE* (-0.598), *INDIV* and *CORR* (-0.559), and *FSIZE* and *BSIZE* (0.444), the correlations among variables, on average, are low, suggesting no multicollinearity problems. The matrix shows *LTPAY* is significant and negatively related to *ETR* (-0.065), indicating a negative (positive) association between long-term executive pay and effective tax rate (tax avoidance). This is generally consistent with prior research (e.g., Rego & Wilson, 2012). In addition, there is a negative and significant correlation between *FSIZE* and *ETR*, suggesting that big firms are more likely to engage in corporate tax avoidance, generally consistent with prior research (e.g., Attwood et al., 1998; Rego, 2003). In addition, the matrix shows that a moderating variable (*INDIV*), firm level controls (*RIGHTS* and *PPE*) and country-level controls (*INFL*, *CORR* and *GDP*) are significantly associated with *ETR*.

Table 2.4: Pearson's correlation matrix of the variables for 819 firm years

Variable	ETR	LTPAY	FSIZE	BIND	RIGHTS	PPE	BSIZE	BEXP	BMEET	CHAIR	ROIC	LEV	ORIE	INDIV	INFL	CORR	GDP
ETR	1.00																
LTPAY	-0.065*	1.00															
FSIZE	-0.174**	0.000	1.00														
BIND	-0.008	-0.058	0.154**	1.00													
RIGHTS	-0.084*	-0.003	0.004	0.001	1.00												
PPE	-0.168**	0.025	0.318**	-0.008	-0.041	1.00											
BSIZE	-0.009	-0.023	0.444**	-0.017	0.092**	0.183**	1.00										
BEXP	-0.146**	-0.035	0.042	0.266**	-0.017	-0.095**	-0.060	1.00									
BMEET	-0.013	-0.019	0.148**	0.053	-0.098**	0.072*	0.132**	0.005	1.00								
CHAIR	0.025	0.020	0.099**	0.180**	0.020	0.070*	0.104**	0.089*	-0.039	1.00							
ROIC	-0.054	-0.006	-0.335**	0.024	-0.014	-0.218**	-0.089*	0.039	-0.101**	-0.025	1.00						
LEV	0.008	-0.004	0.126**	0.134**	-0.080*	0.046	0.052	0.028	0.061	0.057	-0.159**	1.00					
ORIE	-0.062	-0.003	0.266**	-0.333**	0.142**	0.200**	0.344**	-0.181**	0.122**	-0.026	-0.107**	-0.064	1.00				
INDIV	0.158**	0.021	-0.101**	0.182**	-0.366**	-0.068	-0.220**	0.255**	-0.045	0.046	0.055	0.104**	-0.598**	1.00			
INFL	-0.138**	-0.033	-0.094**	-0.087*	0.217**	-0.020	-0.123**	-0.102**	-0.060	-0.097**	-0.048	-0.036	0.108**	-0.314**	1.00		
CORR	-0.148**	0.032	0.110**	-0.038	-0.143**	-0.024	-0.175**	0.337**	-0.204**	-0.008	0.035	0.022	-0.099**	0.507**	-0.114**	1.00	
GDP	-0.148**	-0.011	0.053	0.029	0.104**	0.042	-0.081*	0.035	0.028	-0.076*	0.044	-0.017	0.051	-0.284**	-0.007	-0.147**	1.00

Notes: **and* denote correlation is significant at the 1% and 5% level (2-tailed) respectively (two-tailed tests). Variables are defined as follows: effective tax rate (*ETR*), long-term executive pay (*LTPAY*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC),* leverage (*LEV*), long term orientation (*ORIE*), individualism (*INDIV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2.

6.2. Multivariate regression analyses

This study examines the association between long-term executive pay and corporate tax avoidance in tourism-related firms. One view is that executives cannot easily influence corporate decisions to attain private benefit (Bertrand & Schoar, 2003). An opposing view, based on agency theory, is that executives have discretion within the firm, which they can use to influence corporate decisions in ways that advance their own objectives (Dyreng et al., 2010). Accordingly, linking executive wealth to firm value may motivate them to adopt riskier policies, including tax avoidance. However, a managerial power and rent extraction approach predicts that tax avoidance may help executives divert firm resources (Desai & Dharmapala, 2006), and therefore firms should prevent managers from engaging in tax avoidance, which in turn can weaken the association between long-term executive pay and tax avoidance. To examine this association, and following prior research generally conducted in this area (e.g., Rego & Wilson, 2012; Desai & Dharmapala, 2006; Gaertner, 2014), this study employs OLS regression models to examine this relationship. The analysis begins with the following regression model:

$$ETR_{it} = \alpha_0 + \beta_1 LTPAY_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i\, CONTROLS_{it} + \varepsilon_{it} \quad (6)$$

Where *ETR* is the proxy of corporate tax avoidance, *LTPAY* refers to long-term executive pay, measured as the ratio of long-term executive pay to total executive compensation, *INDIV* refers to individualism culture, *ORIE* is long-term orientation culture and *CONTROLS* refers to control variables of the study, including firm size (*FSIZE*), board independence (*BIND*), shareholders' rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex-CEO (*CHAIR*), return on invested capital (*ROIC*), leverage (*LEV*), inflation (*INFL*), corruption (*CORR*) and GDP growth (*GDP*).

Table 2.5 reports OLS regression results of the association between *LTPAY* and *ETR*. The coefficient of *ETR* on *LTPAY* in Model I of Table 2.5 is negative and statistically significant (*P*-value = 0.023). The economic significance of this association is indicated by the coefficient of (0.083) in Model I, which suggests that, *ceteris paribus*, an increase of one unit of the standard deviation of *LTPAY*, for example, can be expected to lead to about a 1.86 (0.224*0.083*100) percent decrease in *ETR*, implying a 1.86 percent increase

in tax-avoidance level. This suggests that there is a negative (positive) association between *LTPAY* and *ETR* (corporate tax avoidance), therefore providing support to Hypothesis 1.

This evidence suggests that the higher the level of long-term executive pay to the total executive compensation, the higher the level of corporate tax avoidance a firm engages in. This might be interpreted based on agency theory and the optimal contracting approach, whereby linking executive wealth to firm value might motivate executives to engage in riskier policies (including tax avoidance). This is in order to increase firm value, which in turn increases their wealth. This also might be attributed to the distinct characteristics of tourism-based firms. That is, the seasonality, fragility and high sensitivity to economic conditions that expose tourism-related firms to high business and financial risks (Guillet & Mattila, 2010) might push executives to engage in riskier policies, including tax avoidance, so as to maximise their own benefit as compensation for the high risk they bear. Further, these findings are consistent with those of Rego and Wilson (2012) that higher equity risk incentives lead executives to engage in higher levels of tax avoidance. These findings are also consistent with Williams and Rao (2006), Guay (1999), and Rajgopal and Shevlin (2002), who generally find that risk incentives of CEO stock options motivate executives to engage in higher risk than they would otherwise. In addition, these findings provide support for prior research that finds a positive association between firm characteristics (including capital intensity) and corporate tax avoidance (e.g., Attwood et al., 1998; Rego, 2003), where tourism-related firms are distinct with their capital intensity.

Table 2.5: The link between long-term executive pay, ETR and CG with OLS

Dependent	Model I Main model ETR_t		Model II High CG ETR_t		Model III Low CG ETR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
LTPAY	-0.083	0.023*	0.016	0.716	-0.216	0.001***
Moderating variables						
INDIV	0.347	0.000***	0.223	0.002**	0.553	0.000***
ORIE	0.172	0.000***	-0.073	0.191	0.546	0.000***
Firm-level controls						
FSIZE	-0.119	0.008**	-0.163	0.001***	-0.138	0.127
BIND	0.022	0.554	-0.048	0.290	0.030	0.641
RIGHTS	-0.002	0.961	0.078	0.066	-0.007	0.907
PPE	-0.166	0.000***	-0.205	0.000***	-0.266	0.001***
BSIZE	0.001	0.973	-0.023	0.622	-0.088	0.194
BEXP	-0.106	0.004**	0.002	0.969	-0.196	0.003**
BMEET	-0.089	0.012*	-0.028	0.530	-0.088	0.155
CHAIR	0.016	0.638	0.003	0.936	0.005	0.926
ROIC	-0.098	0.005**	-0.068	0.098	-0.319	0.000***
LEV	-0.008	0.801	-0.014	0.721	-0.043	0.461
Country-level controls						
INFL	-0.298	0.000***	-0.324	0.000***	-0.108	0.162
CORR	-0.236	0.000***	-0.261	0.000***	-0.281	0.000***
GDP	-0.074	0.037*	-0.074	0.078	-0.133	0.037*
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	0.557	0.000***	0.778	0.000***	0.479	0.000***
Standard error	0.111		0.109		0.100	
Durbin-Watson	1.960		2.058		1.874	
F-Value	10.220***		7.966***		7.728***	
Adjusted R^2	0.211		0.224		0.394	
Observations	819		553		266	

Notes: This table illustrates the estimated OLS regressions coefficients from three models investigating the relationship between long-term executive pay and tax avoidance as follows. Model I illustrates the association between long-term executive pay and tax avoidance for the whole sample, whereas Model II and Model III, through dividing the main sample to two sub-samples based on the mean of CG score, examine whether CG moderates the relation between long-term executive pay and tax avoidance. Model II presents the results of this relationship among firms that have strong CG system, whereas Model III illustrates the results of this association among firms that have poor CG system. Variables are defined as follows: effective tax rate (*ETR*), individualism (*INDIV*), long-term executive pay (*LTPAY*), long term orientation (*ORIE*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC), leverage (*LEV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Second, prior literature shows that corporate governance might influence both long-term executive pay and corporate tax avoidance (Desai & Dharmapala, 2006; Armstrong et al., 2015). Accordingly, based on the mean of corporate governance scores, the sample was divided into two sub-samples: well-governed firms and poorly governed firms. Then, Equation (6) was re-run for each sub-sample. Models II and III of Table 2.5 present the results of these runs respectively.

The coefficient of *ETR* on *LTPAY* in Model II is very weak (0.016) and statistically insignificant (*P*-value = 0.716), indicating that, among well-governed tourism-related firms, there is no significant association between *LTPAY* and *ETR*. On the other hand, Model III shows a negative (-0.216) and statistically significant (*P*-value = 0.001) coefficient of *ETR* on *LTPAY*, suggesting a strong negative association between *LTPAY* and *ETR* in poorly governed firms.

Overall, these findings suggest that corporate governance moderates the link between long-term executive pay and corporate tax avoidance, thus providing support for Hypothesis 2a and Hypothesis 2b. Specifically, the findings indicate that the association between *LTPAY* and *ETR* is strong (weak) in firms with poor (strong) CG systems.

These findings might be interpreted based on managerial power theory, as well as based on the distinct characteristics of tourism related firms. That is, in poorly governed firms, executives are expected to have higher compensation, including long-term compensation, due to their power (Bebchuk & Fried, 2004; Armstrong et al., 2015). Therefore, they may have incentives to engage in tax avoidance in order to increase share prices, therefore gaining the associated economic benefits. Furthermore, the higher business and financial risks in the tourism sector might lead executives to be more aggressive in terms of engaging in tax avoidance in order to attain private benefits that compensate them for the high level of risk they bear. Accordingly, this behaviour may result in a positive association between long-term executive pay and corporate tax avoidance in poorly governed tourism-related firms.

On the other hand, given the fragility and the high level of financial and business risks already inherent in the sector, well-governed firms seem to avoid taking excessive risks, which in this case are associated with tax-avoidance behaviour that might also lead to managerial diversion. Accordingly, this might result in a weak or no association between

long-term executive pay and corporate tax avoidance in well-governed tourism-related firms. This is consistent with Armstrong et al.'s (2015) findings that indicate that independent and financially sophisticated boards mitigate undesirable levels of tax aggressiveness. These findings are generally consistent with the notion that a strong corporate governance system can be a vital tool in preventing managers from engaging in undesirable activities. Further, these findings are consistent with Drake et al.'s (2019) that investors value tax avoidance but do not value tax risk. This also is consistent with the findings of Habib and Ljungqvist (2005) that suggest a weak association between stock options and firm value.

Third, this study explores the possible moderating effect of cultural values on the link between long-term executive pay and corporate tax avoidance. Accordingly, the sample was divided twice. First, it was divided into two sub-samples based on the mean of individualism (*INDIV*) scores, into high *INDIV* and low *INDIV*. Second, and separately, it was divided into two sub-samples based on the mean of long-term orientation (*ORIE*) score: high *ORIE* and low *ORIE*. Equation (6) was re-run for each of these sub-samples, and the results are illustrated in Table 2.6.

Model I and Model II of Table 2.6 present the moderating effect of individualism on the link between long-term executive pay and corporate tax avoidance. The coefficient of *ETR* on *LTPAY* in Model I of Table 2.6 is negative (-0.099) and statistically significant (*P*-value = 0.050), suggesting a positive (negative) association between long-term executive pay and corporate tax avoidance (*ETR*) in countries with a low level of individualism (high collectivism). On the other hand, the coefficient of *ETR* on *LTPAY* in Model II of Table 2.6 is positive (0.010) but statistically insignificant (0.827), suggesting a weak association between long-term executive pay and corporate tax avoidance in countries with a high level of individualism. These results might be interpreted based on the notion that boards of directors in individualistic countries may seek to discourage and prevent managers from engaging in corporate tax avoidance. This is because managers in these countries, given their individualistic characteristics, are more likely to exploit opportunities to engage in tax avoidance by diverting corporate resources. Further, these results are consistent with the distinct characteristics of tourism-related firms. Given the high risks associated with the tourism sector, managers, especially in individualistic

cultures, might try to compensate themselves for this high risk by diverting firms' resources for their own benefit, if they are encouraged to engage in tax avoidance. Accordingly, boards of directors in these cultures are expected to try to prevent and discourage managers from engaging in tax avoidance, which in turn might weaken the association between executive pay generally and corporate tax avoidance.

Similarly, Model III and Model IV of Table 2.6 illustrate the results of the moderating effect of long-term/short-term orientation on the association between long-term executive pay and corporate tax avoidance. The coefficient of *ETR* on *LTPAY* in Model III of Table 2.6 is negative (-0.073) but statistically insignificant (*P*-value = 0.106), suggesting a negative but insignificant association between long-term executive pay and tax payments (*ETR*) in countries with a short-term orientation. Similarly, the coefficient of *ETR* on *LTPAY* in Model IV of Table 2.6 is negative (-0.049) and statistically insignificant (*P*-value = 0.279), suggesting a weak association between long-term executive pay and corporate tax avoidance in countries with a high level of long-term orientation. These findings suggest not many differences between countries with a high level of long-term orientation and those with a high level of short-term orientation in terms of the association between long-term executive pay and corporate tax avoidance in tourism-related firms. These results might be attributed to the notion that managers in countries with a high level of long-term orientation might be reluctant to engage in tax avoidance so as not to damage their long-term reputation and future career. On the other hand, in countries with a high level of short-term orientation, given the tendency of managers to gain short-term benefits, boards of directors may attempt to prevent managers from engaging in tax avoidance to avoid their behaviour of engaging in tax avoidance for short-term private benefit. In addition, such behaviour by boards of directors might also be interpreted based on the characteristics of the tourism sector. The high business and financial risks associated with this sector may increase managers' tendency to engage in tax avoidance for their own benefit, which might justify the tendency of board of directors to prevent managers from engaging in corporate tax avoidance.

This research's findings, therefore, extend and advance prior research on the effects of cultural values on executive compensation. For example, Tosi and Greckhamer (2004) find a positive association between individualism and total pay. This research's findings

extend this prior literature by adding a crucial dimension, including corporate tax avoidance and sectorial characteristics. The findings of this study are consistent with Chiang (2005), who finds that although cultural variables might affect rewarding arrangements, they are not the sole determinant. Accordingly, Chiang (2005) calls for research exploring the effect of contextual variables when addressing the association between cultural values and reward systems. This study, therefore, responds to the calls of Chiang (2005), advances her findings and highlights the role that cultural values and sectorial characteristics may play on the link between executive compensation and corporate tax avoidance.

6.3. Robustness analyses

The analyses conducted in the previous section do not consider the possibility of endogeneity problems. In addition, these analyses have examined the sensitivity of the results to different measurements of the study's main variables. This section, therefore, examines the sensitivity of the findings to the existence of endogeneity problems and to the use of alternative measurements of both long-term executive pay and corporate tax avoidance.

6.3.1. Endogeneity problems

Prior research shows that endogeneity problems can influence the validity of empirical results (Chenhall & Moers, 2007). An endogenous variable can be generally defined as a variable that correlates with the error term (Wooldridge, 2010). Omitted variables and simultaneity are arguably considered to be the main causes of endogeneity problems (Larcker & Rusticus, 2010). In this study, *LTPAY* is supposed to be exogenous in Equation (6). Accordingly, an endogeneity problem will happen if *LTPAY* is correlated with the error term (ε). In this case, the OLS results might be considered biased. For the omitted variables problem, the inclusion of variables in a model is generally done based on the theories and frameworks that support the investigated links within the model (Chenhall & Moers, 2007). However, models normally lack the inclusion of some other variables that may contribute to their interpretation power. There are different reasons behind their exclusion, such as data availability and time limitation (Chenhall & Moers, 2007).

On the other hand, a simultaneity problem happens when one or more of the independent variables are simultaneously determined by the dependent variable (Larcker & Rusticus, 2010). In this research, the main aim is to investigate the impact of long-term executive pay on corporate tax avoidance. However, some research has found that this link might be determined simultaneously (e.g., Rego & Wilson, 2012), as long-term executive pay might simultaneously increase because of tax-avoidance behaviour.

Table 2.6: The relationship between CSR and effective tax rate with OLS regressions- the effects of cultural values

	Model I Low *INDIV* ETR_t		Model II High *INDIV* ETR_t		Model III Low *ORIE* ETR_t		Model IV High *ORIE* ETR_t	
Dependent variable	Coefficients	*P*-values	Coefficients	*P*-values	Coefficients	*P*-values	Coefficients	*P*-values
Independent variable								
LTPAY	-0.099	0.050*	0.010	0.827	-0.073	0.106	-0.049	0.279
Moderating variables								
INDIV	0.384	0.000***	-0.268	0.003*	0.213	0.064	0.287	0.001***
ORIE	0.394	0.000***	-0.270	0.000***	0.071	0.310	0.590	0.000***
Firm-level controls								
FSIZE	-0.027	0.758	-0.274	0.000***	-0.286	0.000***	-0.166	0.010**
BIND	-0.034	0.575	-0.010	0.828	0.074	0.169	-0.126	0.010**
RIGHTS	-0.061	0.322	0.007	0.861	0.032	0.502	0.093	0.066
PPE	-0.139	0.030*	-0.175	0.000***	-0.162	0.002**	-0.125	0.007**
BSIZE	-0.073	0.255	-0.068	0.189	-0.114	0.039*	0.046	0.431
BEXP	-0.215	0.000***	0.045	0.334	-0.025	0.647	-0.025	0.624
BMEET	-0.081	0.174	-0.096	0.023*	-0.118	0.024*	0.029	0.576
CHAIR	0.055	0.263	-0.080	0.055	-0.107	0.026*	0.032	0.462
ROIC	-0.218	0.000***	-0.032	0.447	-0.085	0.078	-0.098	0.035*
LEV	0.109	0.082	-0.021	0.589	-0.035	0.443	0.058	0.216
Country-level controls								
INFL	-0.164	0.017*	-0.029	0.798	0.191	0.030*	-0.293	0.000***
CORR	-0.284	0.000***	-0.272	0.000***	-0.006	0.948	-0.148	0.019**
GDP	-0.098	0.055	0.050	0.386	-0.031	0.530	-0.266	0.000***
YD	Included	-	Included	-	Included	-	Included	-
CountryD	Included	-	Included	-	Included	-	Included	-
Constant	0.117	0.008**	0.222	0.000***	0.101	0.000***	0.108	.027
Standard error	0.095		0.104		0.104		0.096	
Durbin-Watson	1.945		2.060		1.915		1.948	
F-Value	12.356***		8.100***		5.928***		13.831***	
Adjusted R2	0.506		0.233		0.205		0.455	
Number of observations	280		539		440		379	

Notes: This table illustrates the estimated OLS regressions coefficients from four models investigating the relationship between long-term executive pay and tax avoidance as follows. Model I examines this association among companies that belong to countries with low individualism score and Model II examines this association among companies that belong to countries with high individualism score. Model III examines the same association but among companies that belong to countries with low long-term orientation score and Models IV examines the association among companies that belong to countries with high long-term orientation score. Variables are defined as follows: effective tax rate (*ETR*), long-term executive pay (*LTPAY*), measured as a ratio to the total executive compensation, individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC*), leverage (*LEV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Following prior research (Desai & Dharmapala, 2006; Rego & Wilson, 2012; Hansen et al., 2017; Gallemore, 2014), this study conducts lagged structure and Two-Stage Least Squares (*2SLS*) regression analyses in addressing these problems. First, a lagged structure technique was used to test the simultaneity problem that may happen because of the association between lagged *LTPAY* and *ETR*. Accordingly, Equation (6) was re-estimated as follows:

$$ETR_{it} = \propto_0 + \beta_1 LTPAY_{it-1} + \beta_2 INDIV_{it-1} + \beta_3 ORIE_{it-1} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it-1} + \varepsilon_{it-1} \qquad (7)$$

Where everything is defined as in Equation (6) except for introducing a year lag between both sides of the equation, where the current year's *ETR* depends on the previous year's *LTPAY*. A comparison between the results of the main analysis and the lagged structure is illustrated in Table 2.7. The results of the lagged structure, presented as Model II in Table 2.7, show similarly negative but smaller and insignificant coefficients of *ETR* on *LTPAY*. Despite being insignificant, the same negative direction of *ETR* on *LTPAY* generally suggests that the initial findings of this study are robust. This is supported by the results of the control variables in Model II, where most show the same direction and significance as in the main analysis (Model I).

Table 2.7: The link between long-term executive pay and ETR- a comparison between the main analysis and lagged structure

Dependent	Model I Main analysis ETR_t		Model II Lagged structure ETR_{t+1}	
	Coefficie	P-values	Coefficie	P-values
Independent variable				
LTPAY	-0.083	0.023*	-0.049	0.205
Moderating variables				
INDIV	0.347	0.000***	0.351	0.000***
ORIE	0.172	0.000***	0.183	0.000***
Firm-level controls				
FSIZE	-0.119	0.008**	-0.138	0.004**
BIND	0.022	0.554	0.034	0.400
RIGHTS	-0.002	0.961	0.011	0.781
PPE	-0.166	0.000***	-0.160	0.000***
BSIZE	0.001	0.973	0.024	0.575
BEXP	-0.106	0.004**	-0.114	0.004**
BMEET	-0.089	0.012*	-0.094	0.014*
CHAIR	0.016	0.638	0.006	0.868
ROIC	-0.098	0.005**	-0.064	0.090
LEV	-0.008	0.801	0.005	0.897
Country-level controls				
INFL	-0.298	0.000***	-0.329	0.000***
CORR	-0.236	0.000***	-0.213	0.000***
GDP	-0.074	0.037*	-0.049	0.186
YD		Included		Included
CountryD		Included		Included
Constant	0.557	0.000***	0.597	0.000***
Standard error		0.111		0.112
Durbin-Watson		1.960		2.004
F-Value		10.220***		9.314***
Adjusted R^2		0.211		0.211
Number of observations		819		702

Notes: This table illustrates a comparison between the estimated OLS coefficients of the main model (Model I) and the estimated lagged structure coefficients of the same model (illustrated in Model II) on the relationship between long-term executive pay and tax avoidance Variables are defined as follows: effective tax rate (*ETR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC*), leverage (*LEV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Second, in order to test for endogeneity problems related to omitted variables, following Schultz, Tan and Walsh (2010), a Durbin-Wu-Hausman (DWH) technique was used to check the existence of an endogenous association between the dependent and independent variables of this study (*LTPAY* and *ETR)*. The results of the test suggested rejecting the null hypothesis, which indicates an endogenous association between *LTPAY* and *ETR*. This means that the results of the OLS regression analysis might be biased, making it necessary to employ *2SLS* technique (Chenhall & Moers, 2007; Larcker & Rusticus, 2010).

In the first stage, *ETR* was replaced by *LTPAY* in Equation (6), where *LTPAY* has become the dependent variable, which is to be determined by the other variables in the right-hand side of the equation. Therefore, the first stage is specified as follows:

$$LTPAY_{it} = \propto_0 + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \qquad (8)$$

The predicted value of *LTPAY* that resulted from running Equation (8) was saved as *P_ LTPAY*. Then, in the second stage, this value replaced the original values of *LTPAY*. Thus, equation (8) was re-estimated as follows:

$$ETR_{it} = \propto_0 + \beta_1 P\_LTPAY_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \quad (9)$$

Where everything is defined as in Equation (6) except for replacing *LTPAY* with the predicted value *P_ LTPAY* obtained from Equation (8). However, before running Equation (9), it was necessary to check for multicollinearity between the predicted value of *LTPAY* (*P_ LTPAY*) and other variables on the right-hand side of the equation. Accordingly, Pearson correlation was conducted, indicating that the correlations between *P_ LTPAY* and other variables are generally low, suggesting the validity of *P_ LTPAY* to replace *LTPAY* in Equation (9).

Table 2.8: The link between long-term executive pay and ETR- a comparison between OLS and the 2SLS

	Model I Main model		Model II 2SLS (1st stage)		Model III 2SLS (2nd stage)	
Dependent	ETR_t		$LTPAR_t$		ETR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
LTPAY	-0.083	0.023*	--	--	-0.159	0.084
Moderating variables						
INDIV	0.347	0.000***	0.074	0.228	0.423	0.000***
ORIE	0.172	0.000***	-0.070	0.129	0.177	0.001***
Firm-level controls						
FSIZE	-0.119	0.008**	0.322	0.000***	-0.039	0.615
BIND	0.022	0.554	-0.088	0.018*	-0.022	0.587
RIGHTS	-0.002	0.961	-0.030	0.381	-0.034	0.322
PPE	-0.166	0.000***	-0.156	0.000***	-0.184	0.000***
BSIZE	0.001	0.973	0.029	0.450	0.053	0.168
BEXP	-0.106	0.004**	-0.007	0.835	-0.175	0.000***
BMEET	-0.089	0.012*	-0.178	0.000***	-0.090	0.107
CHAIR	0.016	0.638	0.064	0.049*	0.043	0.211
ROIC	-0.098	0.005**	0.077	0.027*	-0.080	0.037*
LEV	-0.008	0.801	0.068	0.037*	0.003	0.940
Country-level controls						
INFL	-0.298	0.000***	-0.006	0.873	-0.141	0.000***
CORR	-0.236	0.000***	0.085	0.058	-0.195	0.000***
GDP	-0.074	0.037*	0.039	0.256	-0.054	0.118
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Durbin-Watson	1.960		2.049		1.953	
F-Value	10.220***		15.317***		12.576***	
Adjusted R^2	0.211		0.224		0.175	
Number of	819		819		819	

Notes: This table illustrates a comparison between the estimated OLS coefficients of the main model (Model I) and 2SLS (Model II presents the first stage while Model III presents the second stage) on the relationship between long-term executive pay and tax avoidance Variables are defined as follows: effective tax rate (*ETR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC*), leverage (*LEV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Table 2.8 presents the results of both stages of the *2SLS* technique (in Models II and III respectively) as well as comparing the findings with those of the main analysis (presented in Model I). The results of the *2SLS* technique show a negative coefficient of *ETR* on *LTPAY*, with almost double the magnitude but a lower level of significance (significant at 10%). Maintaining the same direction of the relationship between the dependent and independent variables in the *2SLS* as in the OLS technique suggests that the results of the main analysis are robust. This is also supported by maintaining the same direction between the dependent variable and most control variables. Overall, the comparison between the results of the OLS technique, lagged structure and the *2SLS* technique, as presented in Tables 2.7 and 2.8, shows very similar results, indicating that the analyses do not suffer from endogeneity problems.

6.3.2. Alternative tax-avoidance measurement

Seeking more credibility for the findings of this research, an alternative measurement for corporate tax avoidance was used. Most prior research employs annual effective tax rate in measuring corporate tax avoidance (e.g., Hansen et al., 2017; Armstrong et al., 2015; Rego, 2003). However, there are some concerns associated with its use (Minnick & Noga, 2010). Variation in effective tax rate from one year to another can happen for reasons other than tax avoidance. First, this variation can happen because of negative denominators, which can be misleading in indicating corporate tax avoidance. Second, it can also partially happen as a settlement of tax disputes from previous years.

Table 2.9: The relationship between long-term executive pay and ETR- the sensitivity of main results to tax avoidance measurement

Dependent variable	Model I Main analysis ETR_t		Model II Alternative $LRETR_t$	
	Coefficie	*P*-values	Coefficie	*P*-values
Independent variable				
LTPAY	-0.083	0.023*	-0.108	0.003**
Moderating variables				
INDIV	0.347	0.000***	0.257	0.000***
ORIE	0.172	0.000***	0.003	0.953
Firm-level controls				
FSIZE	-0.119	0.008**	-0.131	0.004**
BIND	0.022	0.554	-0.012	0.739
RIGHTS	-0.002	0.961	-0.103	0.003**
PPE	-0.166	0.000***	-0.254	0.000***
BSIZE	0.001	0.973	0.029	0.452
BEXP	-0.106	0.004**	-0.213	0.000***
BMEET	-0.089	0.012*	0.020	0.556
CHAIR	0.016	0.638	0.007	0.833
ROIC	-0.098	0.005**	-0.292	0.000***
LEV	-0.008	0.801	0.155	0.000***
Country-level controls				
INFL	-0.298	0.000***	-0.214	0.000***
CORR	-0.236	0.000***	-0.144	0.001***
GDP	-0.074	0.037*	-0.006	0.867
YD		Included		Included
CountryD		Included		Included
Durbin-Watson		1.960		1.711
F-Value		10.220***		15.211***
Adjusted R^2		0.211		0.313
Number of observations		819		819

Notes: This table illustrates a comparison between the estimated OLS coefficients of the main model (Model I) and the estimated coefficients of the same model but using an alternative measure of tax avoidance (*LRETR*) (illustrated in Model II) on the relationship between long-term executive pay and tax avoidance. Variables are defined as follows: effective tax rate as a main measurement for tax avoidance (*ETR*), long run effective tax rate as an alternative measurement for tax avoidance (*LRETR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC),* leverage (*LEV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Accordingly, Dyreng et al. (2008) developed a measurement that assesses the ability of firms to engage in tax avoidance over a number of years. This measurement is called long-run ETR and can be calculated as the sum of a firm's cash tax paid over a number of years (10 in the original model) divided by the sum of the pre-tax income of the same years. Studies have adjusted this measure to fit their sample periods and aims (e.g., Drake et al., 2019; Davis et al., 2016). Accordingly, this study follows Minnick and Noga (2010) and measures long-run effective tax rate (*LRETR*) as the sum of a corporate tax expense for seven years, divided by the sum of the pre-tax income over the same seven years. Therefore, to assess the sensitivity of the main results of this study to corporate tax avoidance measurement, *ETR* in Equation (6) was replaced by *LRETR*. Therefore, Equation (6) was re-estimated as:

$$LRETR_{it} = \alpha_0 + \beta_1 LTPAY_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \qquad (10)$$

Where everything is defined as in Equation (6) except for replacing *ETR* with *LRETR*, as defined above. Table 2.9 compares the results of using *ETR* with those using *LRETR*, in Models I and II respectively. The coefficient of *LRETR* on *ETR* in Model II of Table 2.9 is negative and statistically significant, with a higher magnitude (-0.108) and a higher significance level (*P*-value = 0.003**) than the coefficient of *ETR* on *LTPAY* in the main analysis (coefficient of -0.083 with a *P*-value of 0.023*). This suggests that the evidence of the positive association between *LTPAY* and *ETR* is robust and not sensitive to the measurements of corporate tax avoidance.

6.3.3. Alternative long-term executive pay measurement

In this section, as an additional sensitivity analysis, the absolute values of long-term executive pay are used as additional measurement for *LTPAY*, replacing the ratio of equity-based pay to executive pay.

Accordingly, Equation (6) was re-run using the values of long-term executive pay (*LTPAY_A)*. Table 2.10 presents OLS regression results of *LTPAY_A* on *ETR*. Despite being insignificant, the coefficient of *ETR* on *LTPAY_A* in Model I of Table 2.10 is negative, which is the same direction as the coefficient of *ETR* on *LTPAY* reported earlier in Model I of Table 2.5. The economic significance of this association is indicated by the

coefficient of (-0.050) in Model I of Table 2.10, whereas it was reported as (-0.083) for *LTPAY* in Model I of Table 2.5. The results of Model I of Table 2.10 generally support the results of the main analysis that provide support for Hypothesis 1, that there is a positive (negative) association between long-term executive pay and corporate tax avoidance (*ETR*).

Similarly, Equation (6) was re-run for each of the high CG and low CG sub-samples, using *LTPAY_A* as the measurement of long-term executive pay. Models II and III of Table 2.10 present the results of these two runs respectively. Consistent with the main analysis of Model II of Table 2.5, the coefficient of *ETR* on *LTPAY_A* in Model II of Table 2.10 is very weak (0.014) and statistically insignificant (*P*-value = 0.771). Similarly, Model III of Table 2.10 shows very similar results to those of the main analysis. It shows a negative (-0.136) and statistically significant (*P*-value = 0.046*) coefficient of *ETR* on *LTPAY_A*. Accordingly, the results of Model II and Model III of Table 2.10 are generally very similar to those of the main analysis, and therefore support Hypothesis 2a and Hypothesis 2b, that there is a negative association between *LTPAY* and *ETR* in poorly governed firms, but no or a weak association in well-governed firms.

Table 2.10: The link between long-term executive pay, ETR and GG with OLS, using an alternative measurement for long-term executive pay

	Model I		Model II		Model III	
	Main model		High CG		Low CG	
Dependent	ETR_t		ETR_t		ETR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
LTPAY_A	-0.050	0.193	0.014	0.771	-0.136	0.046*
Moderating variables						
INDIV	0.265	0.000***	0.169	0.012*	0.533	0.000***
ORIE	-0.062	0.208	-0.141	0.016*	0.140	0.185
Firm-level controls						
FSIZE	-0.174	0.000***	-0.198	0.000***	-0.156	0.095
BIND	-0.006	0.881	-0.093	0.051	0.100	0.159
RIGHTS	0.028	0.423	0.075	0.072	0.014	0.843
PPE	-0.186	0.000***	-0.188	0.000***	-0.308	0.000***
BSIZE	0.050	0.215	-0.016	0.738	0.089	0.310
BEXP	-0.061	0.104	-0.026	0.567	-0.184	0.007**
BMEET	-0.087	0.012*	-0.030	0.485	-0.090	0.224
CHAIR	-0.025	0.467	-0.039	0.359	-0.025	0.692
ROIC	-0.101	0.005**	-0.063	0.146	-0.384	0.000***
LEV	-0.018	0.582	-0.008	0.833	-0.118	0.066
Country-level controls						
INFL	-0.281	0.000***	-0.392	0.000***	-0.006	0.949
CORR	-0.158	0.001***	-0.167	0.001***	-0.248	0.012*
GDP	-0.074	0.041*	-0.077	0.063	-0.093	0.204
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	0.678	0.000***	0.795	0.000***	0.561	0.000***
Standard		0.107		0.106		0.098
Durbin-		1.865		2.136		2.101
F-Value		11.604***		8.650***		6.473***
Adjusted R^2		0.251		0.248		0.396
Number of		814		537		277

Notes: This table illustrates the estimated OLS regressions coefficients from three models investigating the relationship between long-term executive pay and tax avoidance, using the absolute values of executive equity compensation as a measurement for the long-term executive pay. This is as follows: Model I illustrates the association between long-term executive pay and tax avoidance for the whole sample; Model II and Model III, through dividing the main sample to two sub-samples based on the mean of CG score, examine whether CG moderates the relation between long-term executive pay and tax avoidance, where Model II presents the results of this relationship among firms that have strong CG system, whereas Model III illustrates the results of this association among firms that have poor CG system. Variables are defined as follows: effective tax rate (*ETR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board independence (*BIND*), shareholders rights (*RIGHTS*), property, plant and equipment (*PPE*), board size (*BSIZE*), board experience (*BEXP*), board meetings (*BMEET*), chairman is ex CEO (*CHAIR*), return on invested capital (*ROIC*), leverage (*LEV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 2.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

7. Conclusion

This study examines the relationship between long-term executive pay and corporate tax avoidance. It expands the scope of prior literature (e.g., Armstrong et al., 2015; Rego & Wilson, 2012) by examining this relationship internationally and in a new setting, that of tourism-related firms. In addition, it explores the moderating effect of corporate governance and cultural values on these constructs. This study therefore has a number of contributions and implications, which are discussed in this section.

7.1. Theoretical contribution

This study employs a developed multi-theoretical framework adapted to the characteristics of tourism related-firms. In particular, according to the agency relationship, shareholders expect managers to prioritise profit maximisation, including exploiting opportunities towards this aim, which might include engaging in corporate tax avoidance (Hanlon & Heitzman, 2010). Accordingly, boards of directors might design executives' compensation contracts in a way that motivates managers to take efficient decisions related to tax. Based on agency theory, an optimal contracting approach employs executive pay as a solution to the agency problem between shareholders and managers, whereas a managerial power and rent extraction approach perceives executive pay as part of the agency problem between the two parties (Bebchuk et al., 2002). Some characteristics of tourism-related firms might play a role in this theoretical framework. For example, the high financial and business risks of this sector may motivate managers to divert firms' resources to extract rents that can compensate them for the high risk they bear. On the other hand, these high financial and business risks might make boards of directors unwilling to bear further risks, and therefore limit managers' ability to engage in corporate tax avoidance. Furthermore, this study contributes to tourism literature by addressing the areas of executive compensation and corporate tax avoidance in the tourism sector. In addition, this study contributes to the prior literature on executive compensation and corporate tax avoidance by providing new insights on the moderating effect of corporate governance and cultural values on the relationship between long-term executive pay and corporate tax avoidance.

7.2. Empirical contributions

This research contributes to the extant literature on executive compensation and corporate tax avoidance. Specifically, it contributes to the link between long-term executive pay and corporate tax avoidance by exploring the moderating effects of corporate governance and cultural values on this link. It models these links in a new setting – the tourism sector. In addition, this research provides international evidence for these links based on 819 observations from 2010 to 2016, from 25 countries, while most prior empirical research is based on a single country.

The findings of this research make at least four new contributions to the extant literature. First, this study provides evidence of a positive association between long-term executive pay and corporate tax avoidance. Second, it provides evidence that corporate governance moderates this link; it was found that poorly governed firms primarily drive the positive association between long-term executive pay and corporate tax avoidance, whereas well-governed firms show no association. Third, the findings of this research support the theoretical framework of managerial power and rent extraction, as executives of poorly governed firms are expected to have more power and therefore higher compensation, including long-term pay (Bebchuk & Fried, 2004). This in turn might give them more incentives to engage in tax avoidance, especially in a high-risk sector like the tourism sector. By contrast, well-governed firms are more likely to limit undesirable tax avoidance behaviour (Armstrong et al., 2015). That is, the tourism sector already has embedded risks, especially its fragility and sensitivity, leading to high levels of financial and business risk. Therefore, well-governed firms might try to avoid taking excessive risks, including those associated with tax avoidance behaviour. Fourth, this research finds some evidence of moderating effects of cultural values on the association between long-term executive pay and tax avoidance behaviour: in individualistic countries, it was found that the association between long-term executive pay and tax avoidance behaviour is weaker than in collectivistic countries. This suggests that boards of directors in individualistic countries might try to limit managers' ability to engage in corporate tax avoidance in order to avoid managers' tendency of using tax avoidance practices to divert firm resources.

Collectively, the research findings provide new evidence on possible effects of the distinct characteristics of sectors to which firms belong on the level of risk that firms are

willing to accept, including the level of corporate tax avoidance. This study, therefore, extends prior research that investigates whether long-term executive pay motivates managers to adopt riskier polices (including tax avoidance), as well as the moderating effect of corporate governance on this link (e.g., Guay, 1999; Rajgopal & Shevlin, 2002; Coles et al., 2006; Williams & Rao, 2006; Rego & Wilson, 2012; Desai & Dharmapala, 2006; Armstrong et al., 2015). It specifically responds to calls by Rego and Wilson (2012) to examine the effects of context on executives' tendency to use tax avoidance in rent extraction.

7.3. Implications

This research has a number of implications. First, for tourism-related firms, this research highlights the importance of having strong corporate governance systems in place. This is because the findings show a positive moderating effect of corporate governance systems on the association between long-term executive pay and corporate tax avoidance. Given the fragility and high business and financial risks embedded in this sector, the findings of this research show that well-governed firms seem to avoid bearing further risks, and therefore seem to perceive tax avoidance as undesirable, so as to avoid any risks associated with their reputation in this fragile sector. Particularly, tourism-related firms are generally more likely to have difficulties attracting investment due to their high risks (Guillet & Mattila, 2010). Accordingly, it is important for these firms to maintain positive perceptions for investors, which can be gained through having good corporate governance systems in place. The importance of corporate governance systems in this sector is further highlighted by the findings among poorly governed tourism-related firms. It seems that managers of poorly governed firms engage extensively in tax aggressiveness practices, which might be undesirable in this fragile sector. In addition, given the findings of the moderating effect of cultural values, tourism-related firms should consider the cultural values of their executives when designing their compensation contracts. Overall, the findings of this research encourage tourism-related firms to carefully design executive compensation contracts, bearing in mind the risks already embedded in this sector as well as the general cultural values of their managers. In addition, they should evaluate whether the proposed design of executive compensation motivates managers to engage in further risks.

Second, for governments and Non-Governmental Organisations (NGOs), given the interests of different stakeholders, and especially the importance of tax revenues for host countries, the findings of this research motivate them to put pressure on tourism-related firms regarding corporate tax avoidance and corporate governance. This can be through highlighting any discovered tax avoidance cases as well as any excessive executive compensation, and can include bringing media attention to these cases, as this will warn poorly governed firms against engaging excessively in corporate tax avoidance and awarding their executives excessive pay. It may also show them that, if they do so, this might damage their reputation. Third, given the positive moderating effect of corporate governance on the link between long-term executive pay and corporate tax avoidance, regulators are encouraged to strengthen corporate governance guidelines in this sector and motivate tourism-related firms to abide by these guidelines.

7.4. Limitations and future research

Whilst the findings of this research are important and robust, there are some limitations, especially because of the sample size. The study examines 117 tourism-related firms worldwide, constituting 819 observations. This might be considered a relatively small sample size given the overall number of tourism-related firms around the world. The reason behind this relatively small sample is data availability. Accordingly, as more data becomes available, future research may include more variables in the analyses, such as earnings management and executive characteristics. In addition, future research can specifically examine the effects of each type of stock options (e.g., traditional vs. indexed) on corporate tax avoidance. The evidence of the effects of the distinct characteristics of tourism-related firms on the links examined paves the way for future studies to focus on sectorial studies. Furthermore, it motivates interdisciplinary research to be conducted in the tourism sector, which is still growing.

Paper 3

Long-Term Executive Pay, Corporate Social Responsibility and Corporate Financial Performance: The Effects of Governance and Culture

Abstract

This paper explores the extent to which long-term executive pay motivates managers to engage in CSR, and explores the moderating effect of corporate governance and cultural values on this link in tourism-related firms. Further, it investigates the association between CSR, corporate financial performance and corporate governance in these firms. Based on an international sample of 117 tourism-related firms, the results of this study show a positive association between long-term executive pay and CSR performance among well-governed firms, but no significant association among poorly governed firms, consistent with the agency theory as well as with the notion that a strong corporate governance system aligns managers' interests with those of shareholders. Further, the results show a positive association between CSR and firm performance among well-governed firms, and no significant association among poorly governed firms. The findings further provide some evidence that cultural values might play a significant role in the links between long-term executive pay, CSR and corporate financial performance. The results are robust across alternative estimation techniques (i.e., *2SLS* and lagged structure) and to alternative measurements. These results indicate that long-term executive pay can be used as an effective tool in aligning managers' interests with those of both shareholders and stakeholders. These results suggest that tourism-related firms should carefully design executive compensation contracts.

Keywords: *long-term executive pay; CSR; corporate financial performance; corporate governance; culture; tourism-related firms.*

1. Introduction

This study examines the central question of whether linking executive pay to firm value motivates executives to engage in CSR. Further, it investigates the link between CSR and corporate financial performance. In addition, this study explores the moderating effects of corporate governance and cultural values on these links. The study models these relations in a novel setting, the tourism sector. Using an international sample of tourism-related firms, the results show a positive association between long-term executive pay and CSR among well-governed firms, but no significant association among poorly governed ones. The study further provides new evidence of a positive association between CSR and corporate financial performance among well-governed firms, and no significant association among poorly governed ones. Furthermore, it provides evidence that cultural values might affect the associations between long-term executive pay, CSR and corporate financial performance.

The increasing effects of firms' activities on society and human life in recent decades has increased concerns around corporate social responsibility (Maas, 2018; Mahoney & Thorne, 2005). Further, the growing number of standards and initiatives associated with corporate social responsibility, such as the Global Reporting Initiative (GRI), United Nations Global Compact (UNGC) and World Business Council for Sustainable Development (WBCSD), have put firms under increasing pressure to pursue social and environmental objectives (Deckop, Merriman, & Gupta, 2006). Moreover, firms have become subject to different types of rankings, such as Kinder, Lydenberg, Domini, and Co. (KLD), Asset4 Environmental, Social and Governance (Asset4 ESG) and Best 100 Corporate Citizens. These have made firms' CSR performance more transparent (Deckop et al., 2006). Accordingly, firms' traditional objective to sustainably generate profits seems to have become contingent on their ability to engage in CSR. This has led most firms to put serious effort into different aspects of their business (Chuang & Huang, 2018; Cai, Jo, & Pan, 2011). One crucial question has been widely raised: Do CSR activities contribute to shareholder value, or do they contribute solely to firms' executives, at the expense of shareholders? (Hong, Li, & Minor, 2016). Despite the large number of studies that investigate this question, the findings are still inconclusive (e.g., Collett Miles & Miles, 2013; Barnett & Salomon, 2012; Cavaco & Crifo, 2014). The literature in this area

generally shows that the debate around CSR activities has predominantly focused on the organisational level, while the role of individuals has not received the same level of attention, despite the expected crucial role of executives in this issue (Godos-Díez, Fernández-Gago, & Martínez-Campillo, 2011; Swanson, 2008).

In particular, the growing interest in CSR has been caused, at least partially, by corporate scandals, where executives in most, if not all, cases were behind these scandals (Deckop et al., 2006). In addition, their behaviour has led to the increased scrutiny of executives' affairs in companies as well as their role in corporate social responsibility (Deckop et al., 2006; Kochan, 2002). Therefore, it is generally argued that corporate social responsibility cannot exist without socially responsible individuals who believe in the importance of engaging in it (Godos-Díez et al., 2011; Waldman et al., 2006). However, there is a debate around whether executives should treat CSR investments like other corporate investments, in terms of their profitability (Borghesi, Houston, & Naranjo 2014; Jian & Lee, 2015). This suggests engaging in CSR activities only if they have net positive value, which enhances firm value. Specifically, evidence shows that self-interested managers may tend to engage in non-valuable CSR activities only, because these activities contribute to their personal image as good citizens (Borghesi et al., 2014).

On the other hand, executive pay, especially in the aftermath of the corporate scandals of the early 2000s, has attracted much attention. This is due to high levels of pay as well as the huge gap between executive pay and average employee pay (Bender & Moir, 2006). The debate has centred on whether these levels are fair, and if not, how to set fair executive pay contracts (Bender & Moir, 2006). Accordingly, different regulatory authorities have made reforms, especially regarding the pay for performance element, where greater disclosure has become required (Bender & Moir, 2006). Bender and Moir (2006) conducted research to identify best practices around setting executive pay. They found that best practices include linking a significant level of pay to performance, executives holding equity in their companies, and using market benchmarks in identifying salary and bonus levels. However, the study stresses that while these can be considered best practices in identifying executive pay, in some circumstances, each of these practices may lead to dysfunctional behaviour of executives.

The literature generally shows that linking pay to performance might be considered one of the best practices in setting executive pay (e.g., Jensen & Murphy, 1990). Ntim, Lindop, Thomas, Abdou and Opong (2017) find that linking pay to performance is more likely in firms with independent remuneration and nomination committees, higher institutional and managerial ownership, and more reputable CEOs. This practice, then, was promoted to tie executive pay to social and environmental performance (e.g., Mahoney & Thorn, 2006), given the increasing importance of CSR in recent decades. In essence, the literature shows that executive pay might be used by boards as a tool to motivate managers to achieve specific objectives, including financial and social ones (e.g., Bebchuk, Fried, & Walker, 2002; Mahoney & Thorn, 2006). In addition, partially linking executive pay to long-term firm performance might motivate managers to engage in CSR as a means of promoting long term performance (Ji, 2015; Deckop et al., 2006). In addition, this practice might positively affect a firm's reputation, as it sends clear signals about the firm's commitment to CSR (McGuire, Dow, & Argheyd, 2003). In turn, these signals might positively affect the behaviour of employees, shareholders and other stakeholders, assuring them that the company is serious about its long-term viability (De Boer, 2013).

In essence, some reports show the growing tendency of many large companies to link executive compensation to CSR objectives. According to *The Guardian*, 10 percent of the largest 250 companies in the world (G250) tie executive pay to CSR objectives (De Boer, 2013). This report also shows that European companies are dominant in terms of linking executive pay to CSR performance, with France, Germany, Netherlands and the UK in the lead (De Boer, 2013).

In addition, a joint report by the Sustainable Investments Institute and the Investor Responsibility Research Centre reveals that 43 percent of companies in the Fortune 500 index link executive compensation to CSR objectives (Patterson, 2013). For example, Caterpillar Company, which manufactures construction and mining equipment, presents itself as a green company and ties executive pay to green objectives. In 2011, the company's reports showed that 84 percent of its executives had their pay linked to green objectives, such as achieving a 20 percent reduction in gas emissions (Patterson, 2013). Another example is Intel, which succeeded in reducing emissions by 40 percent and saved

more than $5m through recycling, by linking the compensation of top leaders and of all employees to green objectives.

Furthermore, in order to also compensate responsible executives in the short term, some companies started replacing accounting measures with short-term green objectives. For example, Royal DSM, a materials and life sciences company, tied 50 percent of executive short-term bonuses to certain green objectives, including using more green products in the supply chain, and reducing water usage (Larsen, 2015).

Theoretically, the association between executive pay and CSR might be explained based on multiple theoretical frameworks. According to agency theory, managers are considered self-interested individuals, and therefore may engage in CSR activities for personal gain (Fama & Jensen, 1983; Baiman, 1982; Magill & Quinzii, 2002; Mahoney & Thorne, 2005). Accordingly, partially linking executive pay to long-term firm value might align their interests with those of shareholders (Allcock, 2012). This is expected to lead them to engage in profitable long-term activities, which might include CSR activities. By contrast, another theoretical framework predicts that long-term executive pay will negatively affect CSR performance (McGuire et al., 2003). This is because long-term incentives might motivate managers to engage in risky projects, particularly projects that managers believe will have a direct effect on firms' profitability, therefore neglecting CSR activities (Sanders, 2001; McGuire et al., 2003). The third theoretical framework, based on stewardship and stakeholder theories, presumes that managers are good stewards who have ethical values that go beyond their interests, and who do the right thing. Accordingly, they might engage in CSR activities because it is ethical and the right thing to do (Godos-Díez et al., 2011; Hernandez, 2008), regardless of whether their pay is linked to CSR performance. Similarly, empirical research in this area shows mixed results; one stream finds a positive association between long-term executive pay and CSR (e.g., Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Ji, 2015; Deckop et al., 2006), whereas another stream finds a negative association between long-term executive pay and CSR (e.g., McGuire et al., 2003).

Accordingly, this study contributes to the extant literature in a number of ways. First, it investigates the link between long-term executive pay and CSR in a new setting, the tourism sector, whose distinct characteristics have been shown by prior research to

possibly affect different links (e.g., Guillet & Mattila, 2010; Al-Najjar, 2014, 2017). Second, it explores the effect of cultural values on this link, where the literature shows that the values and background characteristics of the powerful actors in an organisation shape its strategies and outcomes (Hambrick & Mason, 1984). Third, this study investigates the moderating effect of corporate governance on the link between long-term executive pay and CSR, where according to agency theory, agency costs are determined by the strength of the corporate governance system (Hong et al., 2016). Fourth, since the link between long-term executive pay and CSR is built on the notion that CSR positively affects firm financial performance, this study further investigates this link in order to obtain a thorough understanding of the pay-CSR link.

Consistent with agency theory, the findings of this study show a positive association between long-term executive pay and CSR in well-governed tourism-related firms, but no significant association among poorly governed firms. In addition, it provides evidence of a positive impact of CSR on firms' financial performance in well-governed tourism-related firms, but no significant association among poorly governed ones. These findings are consistent with the notion that long-term executive pay can be used as an effective tool in aligning managers' interests with those of both shareholders and stakeholders. Furthermore, the findings provide evidence of the moderating effects of cultural values on the pay-CSR link, as well as on the CSR-performance link. Accordingly, these findings provide evidence of the importance of corporate governance systems in tourism-related firms, suggesting that a strong corporate governance system positively affects corporate CSR performance, as well as corporate financial performance. Further, the findings suggest that tourism-related firms that aim to pursue CSR objectives should carefully design executive compensation contracts, as these contracts can be used as an effective tool in achieving these objectives. In addition, these findings have important implications for both governments and regulatory authorities.

The remainder of this paper is organised as follows. Section Two illustrates the background of the main variables, and Section Three presents the theoretical framework of this research. Section Four presents the empirical literature and hypotheses development. Next, Section Five describes the research design, then Section Six presents the empirical results and discussion. Finally, the conclusion is presented in Section Seven.

2. Background

2.1. Corporate social responsibility

Corporate scandals have led to increasing interest in firms' responsibility towards their stakeholders; a great deal of attention has focused on the "stakeholder view". This view encourages firms to consider and acknowledge the interests of various stakeholders when making various corporate decisions (Maas, 2018; Deckop et al., 2006). According to Donaldson and Preston (1995), maximising firm value depends on taking the interests of all stakeholders into consideration. This suggests that economic performance is considered as just one perspective among others, which usually includes social, environmental and ethical perspectives (McGuire, 1963; Carroll, 1979, 1991).

However, engaging in CSR has always been subject to much debate. The debate is usually centred on whether firms are responsible only for maximising value for shareholders, or also for the interests of other stakeholders and society (Crane, Matten, & Spence, 2014). On the one hand, Friedman (1962, 1970) argues that firms are only responsible for maximising profit for their shareholders, and therefore firms should only engage in profitable activities. He further argues that engaging in unprofitable CSR activities wastes shareholders' wealth and works against their interests. Karnani (2010) argues that managers, by spending shareholder money for public good, impose costs and taxes on shareholders and decide how shareholder wealth should be spent.

Indeed, CSR activities, if not undertaken sensibly, may destroy shareholder value. That is, managers may engage in negative net value CSR activities, which transfer the wealth of shareholders to other parties (Jian & Lee, 2015). This might be in managers' self-interest, for example by enhancing their reputation as good citizens, developing their connections with stakeholders or advancing their careers (Fabrizi, Mallin, & Michelon, 2014; Jian & Lee, 2015; Barnea & Rubin, 2010). An example of these kinds of non-value-added CSR activities is spending CSR money on cosmetic and ceremonial events with little or no value for the company (Surroca & Tribó, 2008; Jian & Lee, 2015).

On the other hand, McGuire (1963) argues that firms' responsibilities go beyond economic and legal aspects to include responsibilities towards the society in which they operate. This is supported by Crane et al. (2014), who highlight the importance of engaging in CSR. They argue that firms, given the intense global competition in the present

globalised era, operate with low societal and environmental standards, and therefore there is a need for social and environmental norms. In this framework, Carroll (1979) offers a model for CSR that includes four main aspects of firm responsibilities, including economic, legal, ethical and discretionary. This view of firms' responsibilities is generally built on stakeholder theory and perceives CSR as a possible tool to resolve conflicts between executives, shareholders and non-shareholder stakeholders (Freeman, 1984; Cai et al., 2011). In essence, according to stakeholder theory, firms should engage in CSR activities not only to generate profit and abide by law, but also to act ethically and support society and the environment (Carroll, 1999; Cai et al., 2011).

The benefits of engaging in CSR might be explained based on this theory, as illustrated by Jian and Lee (2015). Stakeholder theory perceives the firm as a nexus of contracts between shareholders and other stakeholders, such as employees, suppliers and customers (Freeman, 1994; Jian & Lee, 2015). Each stakeholder group provides the firm with resources in exchange for the benefits included in the contracts. These contracts can be explicit, such as product warranties with customers and wage contracts with employees, or implicit, such as promises to provide high-quality products to customers (Jian & Lee, 2015). The argument here is that if firms' investments in CSR add value to the stakeholder groups according to these contracts, then these stakeholder groups are expected to add value to the firm in exchange; therefore, this will increase shareholder value (Jian & Lee, 2015). Given the competing theoretical frameworks and the mixed empirical results, the ultimate effect of CSR on firm value is still inconclusive (e.g., Chen & Lee, 2017; Jiraporn, Chintrakarn, Davidson, & Jiraporn, 2016).

2.2. Long-term executive pay

Long-term executive pay has been increasingly used as a main component in executive pay packages due to the weak link between short-term executive pay and firm performance (Seo & Sharma, 2018). For example, executive pay that is based on accounting measures shows a weak link with firm performance. This is due to the inability of these measures to reflect non-financial performance, such as customer satisfaction (Kim, Nofsinger, & Mohr, 2010). In addition, managers might engage in some activities and decisions that increase short-term profits but negatively affect long-term profits; for example, reducing R&D

investments, reducing marketing expenses and engaging in earnings management practice (Satheesh Kumar, 2010). These examples show some weaknesses in short-term measures, since they do not motivate managers to make their decisions towards enhancing long-term performance. This, accordingly, might be considered the main reason behind the increasing use of long-term executive pay.

Stock options are typically considered the most common form of long-term executive pay (Mahoney & Thorn, 2006). Stock options are a tool that gives managers the right to buy a specific number of the company's shares in the future at a price determined on the options' issue data (Mallin, 2013). The core idea of stock options is to link executives' wealth to firms' long-term performance. This happens because stock options focus on pushing executives to work towards increasing a firm's share value in the long run. Therefore, executives who obtain a large amount of options might be expected to take decisions that aim at maximising firm value in the long run (Mahoney & Thorn, 2006). However, it is argued that equity-based compensation does not always align executive interests with those of shareholders, since it does not have the loss side that real equity has (Tricker, 2012). This may make stock options sometimes work against shareholder interests, as the options might motivate managers to engage in a different level of risk than shareholders would want them to (Ju, Leland, & Senbet, 2014; Allcock & Filatotchev, 2010; Aboody, Levi, & Weiss, 2018), which might also weaken the association between stock options and firm performance (e.g., Habib & Ljungqvist, 2005). In addition, compensating managers based on the absolute change of stock price might be inaccurate. This is because stock prices are affected by factors unrelated to managers' performance, such as economic conditions and falling/rising stock market trends (Bebchuk et al., 2002; Kim et al., 2010). This has led to the introduction of modified forms of stock options, such as indexed stock options (Tricker, 2012). However, the ultimate effect of stock options on managers' behaviour is still inconclusive.

Accordingly, the use of long-term executive pay in motivating managers to engage in CSR is still controversial, since it is also argued that motivating managers to focus on long-term financial performance does not necessarily lead to pursuing CSR activities, and may even negatively affect managers' tendency to engage in CSR activities (Bebchuk et al., 2002). However, if the market appreciates the advantages of the strategic CSR plans,

both managers and shareholders will benefit in the long run, in the form of increased share price (Mahoney & Thorn, 2006). The following section thoroughly addresses the theories that might explain the relationship between executive pay and CSR.

3. Theoretical framework

Research in this area shows that multiple theoretical frameworks might explain the association between executive pay and corporate social responsibility. However, before discussing the theoretical foundations of this link, it might be important to shed some light on the competing theories that might explain executive pay arrangements. Based on prior literature, two competing theoretical frameworks are generally identified. The first is the optimal contracting theory, according to which boards of directors negotiate executive pay arrangements with managers at an arm's length (e.g., Elmagrhi et al., 2018; Weisbach, 2007; Edmans & Gabaix, 2009). This theory presumes that boards of directors are loyal agents for shareholders, since boards of directors try to minimise agency costs and maximise shareholder value (Hong et al., 2016). Thus, this theory implies that board members are independent in their decisions and that the corporate governance system is optimal. By contrast, managerial power theory and social network theory argue that there are social ties between board members and executives, which hold mutual benefits, such as the appointment of board members in the board, board members' tenure and compensation levels (Harris & Helfat, 2007; Hong et al., 2016). This suggests that board members will be less independent and managers will be more powerful when negotiating executive pay arrangements. Therefore, executive pay arrangements are expected to be sub-optimal. Collectively, these theories may play a role in explaining the association between long-term executive pay and CSR performance.

In addition, prior literature shows that agency theory is expected to contribute to explaining the association between executive pay generally and CSR. Agency theory presumes that firms are characterised by a conflict of interest between principals and agents. This theory can be applied to shareholders (principals) and managers (agents) in different types of firms (Jensen & Meckling, 1976; Deckop et al., 2006). Agency theory presumes that executives (agents) are self-interested in nature, which can lead them to make corporate decisions in such a way that they maximise their own benefit (Fama &

Jensen, 1983; Baiman, 1982). Accordingly, the most opportunistic executives (agents) are those who make decisions exclusively based on their self-interest and are not influenced by social norms (Magill & Quinzii, 2002; Mahoney & Thorne, 2005). Friedman (1970), in a pioneering study, argues against CSR, supporting the notion that managers are self-interested and likely to engage in these activities for their own benefit, at the expense of shareholder value. This view has been supported by subsequent research. For example, Masulis and Reza (2014) find that corporate donations contribute to executives' interests and are considered to be a misuse of firms' resources. In addition, Barnea and Rubin (2010) find evidence that managers and large block holders over-invest in CSR for personal benefit.

Moreover, according to agency theory, the cost of monitoring rises when agents have more information than principals about firms' activities and decisions (information asymmetry), and when activities are not routine and repetitive (Deckop et al., 2006). These features are likely to characterise decisions associated to CSR. Accordingly, prior research shows that corporate governance mechanisms might effectively deal with such problems. That is, corporate governance is generally interested in the mechanisms that ensure shareholders get a return on their investments, as well as balancing the relationships between different parties associated with the firm (Shleifer & Vishny, 1997; Letza, Sun, & Kirkbride, 2004). Therefore, the main dilemma of corporate governance is to find ways to align the interests of managers with those of shareholders and other stakeholders (Hong et al., 2016). The literature shows that one of the mechanisms that may achieve this alignment is the design of executive compensation contracts (e.g., Allcock, 2012).

According to agency theory, shareholders try to minimise managers' self-interest in two ways. The first is monitoring and controlling managers' behaviour (Ji, 2015). The second is to motivate and incentivise managers, through the board of directors, to work towards maximising value for shareholders (Ji, 2015). Due to the difficulty of controlling managers' activities and decisions in today's dynamic business environment, boards may tend to focus more on the second method – motivating managers (Ji, 2015), and/or shifting some of the performance risks from shareholders to managers (Deckop et al., 2006). One possible effective mechanism for achieving this motivation and risk transfer is the design of executive compensation contracts; these contracts can be designed in a way that links

the wealth of managers themselves to shareholders' wealth. This might also help decrease the need for shareholders to closely monitor managers' behaviour.

Opportunistic executives generally prefer compensation schemes that minimise firm risks and maximise their own interests at the expense of stakeholders' interests (Mahoney & Thorne, 2005; Amihud & Lev, 1981). On the other hand, shareholders and other stakeholders prefer executive compensation that is linked to the firm's long-term performance (e.g., Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Ji, 2015; Deckop et al., 2006). Executive compensation generally consists of base salary, variable compensation and benefits. Base salary is argued to constitute around 20 percent, on average, of the total executive compensation (Ji, 2015). Accordingly, the way that variable pay is designed is expected to affect managers' behaviour. Variable pay can generally be divided into short-term variable pay, such as bonuses, and long-term variable pay, such as stock options (Stroh, Brett, Baumann, & Reilly, 1996; Mahoney & Thorn, 2006; Ji, 2015). The main aim of short-term variable compensation is to motivate managers to achieve short-term targets – mostly financial (Gerhart & Milkovich, 1990; Ji, 2015; Mahoney & Thorne, 2005). Accordingly, managers are likely to be keen to maximise short-term earnings if their compensation contracts provide them with substantial pay linked to short-term earnings (Deckop et al., 2006). This may even lead them to engage in earnings management practices in order to make up the earnings figures in the short term (Healy, 1985; Deckop et al., 2006). On the other hand, such behaviour is expected to be minimal if their pay schemes are mainly linked to long-term performance (Richardson & Waegelein, 2002). It is argued that because short-term variable pay depends mainly on accounting measures, which are considered retrospective measures of firm performance, this pay component is expected to neither motivate managers' long-termism nor give much attention to activities associated with corporate social responsibility (Mahoney & Thorne, 2005). Particularly, despite the possibility of short-term positive effects (e.g., positive effects on the firm's reputation and therefore positive effects on share price), the benefits of engaging in CSR are more likely to happen in the long run (Deckop et al., 2006).

Thus, based on the agency theory lens and following Deckop et al. (2006) and Ji (2015), it is expected that short-term executive pay will not be helpful in motivating managers to engage in CSR activities. This was also tested empirically, and it was found

that there is no (or a negative) association between short-term executive pay and CSR (e.g., McGuire et al., 2003). Deckop et al. (2006) explain how the focus on short-term executive pay might negatively affect CSR and work to demotivate managers to engage in it. They argue that areas of CSR strengths include gaining positive positions for variables such as human rights, safety, diversity, the environment and community relations. The resources spent on these activities could be re-allocated to focus on achieving better short-term earnings. Deckop et al. (2006) further argue that the resources allocated to solving problems in areas of CSR concerns (e.g., employee safety, financial mismanagement, environmental neglect) are not likely to positively affect financial performance in the short run. Therefore, if managers' pay is heavily based on short-term accounting measures, they may tend to direct resources toward this end, instead of toward CSR activities.

On the other hand, long-term variable pay aims to motivate managers to consider long-term performance in their strategies and decisions (Mahoney & Thorne, 2005). Consequently, long-term variable pay may motivate managers to engage in CSR activities (Mahapatra, 1984; Ji, 2015), especially if they believe that these activities have positive impacts on the firm's market value in the long term. This, therefore, might align managers' interests with stakeholders' interests (Mahoney & Thorne, 2005). In addition, pay schemes that heavily depend on long-term performance place less pressure on managers in terms of maximising earnings in the short run; rather, these schemes provide longer timeframes that can take advantage of the benefits of engaging in CSR (Deckop et al., 2006; Short, 2004). Consequently, Mahoney and Thorne (2005) argue that firms that link executive pay to long-term performance are more socially responsible compared with firms that do not make the same link.

In essence, long-term variable pay may motivate managers to adopt more strategic long-term decisions, including CSR, and to take more risks associated with the uncertainty of long-term performance (Ji, 2015). This is based on the notion that responsible firms that pursue CSR objectives enjoy benefits in the long run (Kane, 2002; Mahoney & Thorn, 2006; Deckop et al., 2006). These benefits are typically associated with the positive effects of CSR on firm reputation, which take a number of years to develop (Short, 2004; Deckop et al., 2006). In addition, CSR activities may help resolve the conflict between different stakeholder groups, as these activities involve areas such as employee relations, diversity,

the environment and community (Harjoto & Jo, 2011). In short, it might be useful for both shareholders and other stakeholders to use executive pay as a means of encouraging managers to engage in CSR, since this might minimise the conflict between the needs of shareholders and other stakeholders (Mahoney & Thorn, 2006).

Therefore, based on the agency theory lens, executive compensation might be used as an effective tool for aligning self-interested managers with firms' strategic CSR plans (Bebchuk et al., 2002; Mahoney & Thorn, 2006). However, this is expected to be contingent on the arrangements associated with setting executive pay. Particularly, the application of this theoretical framework is likely to depend on having optimal contracts in place. Accordingly, if a corporate governance system in a particular company is strong, then the executive contract arrangements are expected to be ideal, and therefore long-term executive pay might motivate CSR engagement.

However, when a corporate governance system is weak, executive pay arrangements are expected to be sub-optimal. Accordingly, no direct (or a weak) association is expected between executive pay and CSR. That is, self-interested managers may tend to engage in CSR activities extensively for their own benefit (Jiraporn & Chintrakarn, 2013), through exploiting the poor control associated with the weak corporate governance system. This might include improving their own reputation, and therefore advancing their career opportunities as well as their bargaining power. In this case, it is shareholders who bear the costs of these no-added-value CSR activities, since these activities will not contribute to resolving the conflict between different stakeholder groups (Cai et al., 2011). In short, when a corporate governance system is weak, the link between executive pay and CSR engagement is expected to be weak as well.

In sharp contrast with this theoretical framework, others argue that long-term incentives may lead to weaker CSR performance. McGuire et al. (2003) argue that long-term executive pay, which includes stock options and other equity-based compensation (e.g., stock appreciation rights and long-term performance plans) do not act exactly like the actual ownership. This is because these incentives typically do not include actual loss for executives; rather, they constitute an opportunity cost if the firm's stock price falls. In addition, Sanders (2001) argues that stock options encourage managers to engage in riskier strategies and focus on potential high gains, paying less attention to avoiding loss. This

engagement in riskier strategies may lead to socially dubious behaviour (McGuire et al., 2003). Further, McGuire et al. (2003) argue that the instrumentality of focusing on social performance as a means of improving long-term firm performance is limited when compared to other strategies that can be used to achieve this objective. This is based on the notion that building relationships with stakeholders might be less visible when compared to strategies that directly affect firm performance. Furthermore, McGuire et al. (2003) argue that stock options may encourage managers to engage in earnings manipulation and other strategies that can boost market share price without creating shareholder value. Examples includes accounting manipulation and the fraud that led to the Enron and WorldCom crises (Despeignes & Hill, 2002). According to this view, long-term executive pay, such as stock options, is expected to be negatively (or not) associated with CSR engagement.

On the other hand, some scholars argue that agency theory, which perceives managers as self-interested individuals, cannot solely address CSR issues. This is because perceiving managers as self-interested people contradicts the moral and ethical values needed to engage in CSR activities (Godos-Díez et al., 2011; Ghoshal, 2005). Accordingly, they propose stewardship or stakeholder theories, which depict managers as collectivistic and pro-organisational people, who act cooperatively and consider the needs of shareholders and all other stakeholders in their decisions (Chrisman, Chua, Kellermanns, & Chang, 2007; Davis, Schoorman, & Donaldson, 1997; Godos-Díez et al., 2011; Freeman, 1994). This theoretical framework implies that the best way to satisfy the conflicting needs of all stakeholders is to maximise the firm's long-term value (Hernandez, 2008; Godos-Díez et al., 2011). According to this theoretical framework, managers are likely to engage in CSR activities regardless of whether their pay is tied to long-term firm value. Therefore, a weak association is generally expected between executive pay and CSR performance according to this theoretical framework.

4. Empirical literature and hypotheses development

4.1. Long-term executive pay and CSR performance

As discussed in the previous section, competing theoretical frameworks might be used in interpreting the positive, negative or absent association between long-term executive pay and CSR. Empirical research in this area shows mixed results. Mahoney and Thorne (2005), using data from 90 Canadian firms between 1992 and 1996, find a significant positive association between long-term executive pay and CSR. Further, the study finds that firms that use long-term executive pay are more effective in mitigating the weaknesses associated with the product/environment than firms that do not use it, suggesting that long-term pay leads executives to focus on factors related to sustainability and social responsibility. Another study by the same authors (Mahoney & Thorn, 2006), based on data from 77 large Canadian firms, explores whether boards use executive pay to motivate managers to achieve social and environmental goals. The study finds a significant positive association between stock options and CSR and, further, a positive association between salary and CSR weaknesses, as well as between bonus and CSR strengths. Their study, therefore, stresses the importance of the design of executive pay contracts in encouraging managers to direct firms towards engaging in responsible activities.

These findings are supported within the US context by Ji (2015), who investigates the influence of each component of executive pay on managers' motivation to engage in CSR. Using data from 1,743 US firms for the period 2004-2011, the study finds a positive association between long-term variable pay and CSR, but a negative association between short-term variable pay and CSR. Similarly, based on a sample of 313 US firms, Deckop et al. (2006) find that long-term executive pay is positively associated with CSR, whereas short-term executive pay is negatively associated with CSR. In addition, Berrone and Gomez-Mejia (2009), based on data from 469 US firms for the period 1997-2003, find that using long-term executive pay promotes environmental performance in the form of pollution prevention, especially in polluting industries. Furthermore, Jian and Lee (2015) reveal a positive association between CEO pay and normal levels of CSR engagement, and a negative association with abnormal levels of CSR engagement. This is based on data from 1,680 US firms for the period 1992-2011.

By contrast, McGuire et al. (2003), using data from 374 US firms, find a negative association between long-term executive pay and corporate social performance. Further, their study finds no association between executive incentives and strong social performance. The study also finds a negative impact of high salaries on corporate social performance. Within this framework, Jiraporn and Chintrakarn (2013) investigate the association between CEO power and CSR engagement, using data from 1,370 US firms within the period 1995-2007. The study finds that powerful CEOs engage in more CSR activities, but when they become very powerful, they reduce CSR engagement. The study interprets these results based on agency theory, where CEOs engage in CSR for private benefit, but when they become very powerful, they tend to reduce their CSR engagement in favour of cash flows that they can better exploit using their higher levels of power.

The above discussed empirical literature shows that most, if not all, studies conducted on the link between long-term executive pay, CSR engagement and corporate governance are based in the US or Canada, and there is a lack of literature in other contexts. This study responds to the calls of Mahoney and Thorn (2006), who stress the importance of context in investigating the links between these variables. This study therefore explores these constructs in a new setting, based on tourism-related firms worldwide. This sector has special characteristics that might affect the links between these variables. For example, tourism-related firms are distinct in that they experience high levels of financial and business risk (e.g., Guillet & Mattila, 2010). In addition, corporate governance systems in these firms are argued to be different from those of other sectors (Pechlaner, Raich, & Kofink, 2011). These characteristics highlight the importance of exploring these links in this context, in order to test the possible contextual impacts on these constructs. Based on the general idea that high risks are associated with this sector, agency theory predicts that managers will tend to extract rent in order to compensate themselves for the high risks they bear. Therefore, when they engage in CSR activities, they are expected to do so for personal benefit. In addition, managers are expected to focus on short-run benefits due to the lack of long-run visibility in such a fragile and risky sector. Therefore, a weak or no association is expected between long-term executive pay and CSR performance. Accordingly, this study tests the following hypothesis:

Hypothesis 1: There is a weak/no association between long-term executive pay and CSR performance in tourism-related firms.

4.2. The moderating effect of corporate governance on the pay-CSR link

According to agency theory, the level of agency costs is determined generally through the balance of power between shareholders and managers, which is identified by the strength of the corporate governance system in place (Hong et al., 2016). Accordingly, when a corporate governance system is strong, it is expected that the system will preserve the interests of shareholders. This includes having optimal compensation contracts, where managers are not in a position to direct firms' resources towards their own interests. Rather, managers are likely to engage in activities that maximise shareholder value (Hong et al., 2016), which might include engaging in CSR activities if they maximise firm value. In this case, the use of long-term executive pay is expected to lead to better CSR performance.

Within this framework, Jian and Lee (2015) investigate the effect of corporate governance on the link between CEO pay and CSR engagement. The study finds that strong corporate governance systems strengthen the positive association between CEO pay and CSR performance, suggesting that a strong corporate governance system penalises abnormal CSR. This is supported by Hong et al. (2016), who find a positive role for corporate governance on the association between executive pay and CSR engagement. Specifically, the study finds that firms with strong shareholder-friendly corporate governance systems are more likely to link executive pay to CSR, suggesting that CSR engagement is beneficial for shareholders. Their findings are accomplished through employing a sample that includes the top five executives of each of the companies listed in Standard and Poor's 500 Index. On the other hand, McGuire et al. (2003) find that corporate governance systems have a limited impact on the association between long-term executive pay and corporate social performance. The study finds that the negative association between long-term executive pay and corporate social performance is stronger among firms with high levels of activist holdings.

As discussed earlier, tourism-related firms are generally distinct, with higher levels of financial and business risks (e.g., Guillet & Mattila, 2010), where managers may tend to extract rents in order to compensate themselves. Accordingly, a strong corporate

governance system, which is expected to be associated with optimal executive pay contracts, is also expected to align the interests of managers with those of shareholders. In addition, strong corporate governance systems are expected to control managers' tendency to extract rents. Therefore, when managers engage in CSR activities, it is expected to be to maximise firm value, not for private benefit, especially if the board links managers' pay to long-term firm performance. Therefore, long-term executive pay is expected to be positively associated with CSR performance in well-governed tourism-related firms. Accordingly, this study tests the following hypothesis:

> *Hypothesis 2: In well-governed tourism-related firms, there is a positive association between long-term executive pay and CSR performance.*

On the other hand, when corporate governance systems are weak, managers are expected to be powerful. Therefore, based on agency theory, they will generally tend to engage in activities that maximise their own interests at the expense of shareholder value (Hong et al., 2016). This might include dominating pay arrangements, leading to sub-optimal contracts, as well as engaging in CSR activities for their own interests. Accordingly, the association between long-term executive pay and CSR performance is expected to be weak. The high financial and business risks that are argued to be associated with tourism-related firms (Guillet & Mattila, 2010) are expected to contribute to this prediction, since managers of these firms are expected to have a higher tendency to extract rents in order to compensate themselves for the high risks they bear. Accordingly, this study tests the following hypothesis:

> *Hypothesis 3: In poorly governed tourism-related firms, there is a weak/no association between long-term executive pay and CSR performance.*

4.3. The moderating effect of corporate governance on the CSR-financial performance link

The stream of literature investigating the association between long-term executive pay and CSR is built mainly on the notion that engaging in CSR promotes firm performance and firm value in the long run. Indeed, the majority of studies that investigate this association

find evidence of the positive impact of CSR on firm performance (e.g., Collett Miles & Miles, 2013; Inoue & Lee, 2011; Saeidi, Sofian, Saeidi, Saeidi, & Saaeidi, 2015). A meta-analysis study, including 52 studies on the association between CSR and firm financial performance, found that CSR efforts pay off in the form of better firm financial performance (Orlitzky, Schmidt, & Rynes, 2003). However, there is a scarcity of studies that investigate this link in tourism-related firms. Accordingly, this study bridges this gap and examines the association between CSR and financial performance in tourism-related firms, in order to assess whether or not engaging in CSR comes at the expense of firm financial performance. In addition, this study investigates the moderating effect of corporate governance on this link, which none of the prior literature, to the best of my knowledge, has investigated. This will be conducted by following prior research (Ji, 2015; Mahoney & Thorn, 2006) and using CSR data lagged by one year in order to be able to allow time to capture the effect of CSR.

Despite the relative domination of the positive effect of CSR on firm financial performance, there is still considerable debate on whether or not CSR activities contribute to corporate financial performance, or are non-value-added activities that reduce shareholder value. Collett Miles and Miles (2013), using data from Fortune 1000 firms across 15 sectors, find some evidence of a positive association between CSR and corporate financial performance. Similarly, Saeidi et al. (2015), based on 205 Iranian manufacturing and customer product companies, find that CSR positively affects firm financial performance through its positive effect on firms' competitive advantage, reputation and customer satisfaction. On the other hand, Barnett and Salomon (2012) investigate the same link using 1,214 large US firms for the period 1998-2006. They find that the link between CSR and firm financial performance is U-shaped, and that firms with low CSR have better financial performance than firms with moderate CSR, whereas firms with high CSR have the highest financial performance. Cavaco and Crifo (2014), using data from 300 firms from 15 countries for the period 2002-2007, find various effects of CSR components on firm financial performance. The study finds that firms that are more responsible towards their employees, customers and suppliers are associated with better financial performance. However, the study finds that environmental responsibility seems to be a substitute for financial performance. On the other hand, Callan and Thomas (2011), based on data from

288 US firms for the period 2003-2005, find that corporate social performance and corporate financial performance are determined simultaneously. Further, the study finds a significant association between executive pay and CSR engagement.

For the tourism sector, a number of studies investigate the effect of CSR on firm financial performance, yet most, if not all, are based on a single tourism sub-sector and/or a single country. For example, Rhou, Singal and Koh (2016) investigate the effect of CSR on firm performance, based on 53 US firms in the restaurant sector. They find that the effect of CSR on corporate financial performance is contingent on CSR awareness, measured by the media coverage of CSR activities. Lee, Seo, and Sharma (2013) investigate this link in the US airline industry. Using data from 19 US airline companies for the period 1991-2009, the study finds a positive effect for operational-related CSR activities, but not for non-operational-related CSR activities. The study defines operational-related CSR activities as activities that directly affect the firm's core business activity, such as improving product quality and employee relationships; it defines non-operational-related CSR activities as activities that are engaged in for ethical reasons, despite lacking a clear contribution to firms' operations. On the other hand, Lee and Park (2009) investigate this link in the US hotels and casinos industries. Using data from 40 hotels and 45 casinos, the study finds a positive and simultaneous effect of CSR on firm financial performance in the hotel industry, but no effect of CSR on firm performance in the casino industry. Whereas, in a more comprehensive study (but also based on the US alone), Inoue and Lee (2011) investigate the aforementioned link based on four tourism sub-sectors: the restaurant, hotel, airline and casino industries. The study finds that all CSR dimensions have a positive impact on firm financial performance.

This study, therefore, contributes to this stream of literature in at least two different ways. First, while most studies in this area are based on a single country, most often the US, this study tests this link using an international sample. Second, it investigates the moderating effect of corporate governance on this link in tourism-related firms, where scarce (if any) prior research has been conducted. Consistent with the theoretical foundations of this study, it is expected that well-governed firms will align managers' interests with those of shareholders. Therefore, when managers engage in CSR activities, it will be with the aim of maximising firm value. Accordingly, in well-governed firms,

CSR is expected to be positively associated with firm financial performance and firm value. Empirically, Ntim and Soobaroyen (2013) find that corporate governance strengthens the positive association between CSR and corporate financial performance, suggesting a positive impact of corporate governance on this link. On the other hand, when a corporate governance system is weak, managers may tend to engage in CSR activities for private benefit, suggesting a negative/no impact of CSR on financial performance and firm value. Thus, this study tests the following hypotheses:

Hypothesis 4: In well-governed tourism-related firms, CSR activities positively affect corporate financial performance.

Hypothesis 5: In poorly governed tourism-related firms, CSR activities negatively/do not affect corporate financial performance.

4.4. The moderating effects of culture on pay-CSR and CSR-performance links

Prior literature shows that cultural values might influence executive pay arrangements (e.g., Burns et al., 2017; Tosi & Greckhamer, 2004; Pennings, 1993; Conyon & Schwalbach, 2000), as well as corporate social responsibility strategies and decisions (e.g., Peng, Dashdeleg, & Chih, 2014; Ho, Wang, & Vitell, 2012; Ioannou & Serafeim, 2012; Waldman et al., 2006; Ringov & Zollo, 2007). However, no prior literature, to the best of my knowledge, has investigated the possible effects of cultural values on the link between them. According to Hambrick and Mason (1984), the values and background characteristics of the powerful actors in a firm affect its strategies and outcomes. Accordingly, due to the key role played by managers in making decisions around CSR, Agle, Mitchell and Sonnenfeld (1999) highlight the importance of conducting research on the factors influencing managers' behaviour in this regard. Generally, prior research shows that cultural values affect managers' beliefs towards strategic decisions (e.g., Waldman et al., 2006). Comparing executive pay arrangements in ten European countries, Conyon and Schwalbach (2000) find that executive pay arrangements are largely shaped by cultural values. This research is interested in the effects of long-term executive pay on managers' decisions around engaging in CSR. Accordingly, the most relevant cultural values in this context are argued to be individualism/collectivism and long-vs-short orientation values.

4.4.1. The moderating effects of individualism/collectivism

An individualistic culture is one where individuals tend to prioritise their own interests and achievements over those of the larger group they belong to (Hofstede, 1980, 2003). On the other hand, a collectivistic culture is one where individuals tend to prioritise the common good, and groups' achievements and interests over their own (Hofstede, 1980, 2003). Accordingly, managers are expected to view rewards differently based on their cultural values (Bloch & Parry, 1989; Tosi & Greckhamer, 2004). For example, managers in individualistic cultures might tend to receive higher salaries, as a sign of their success, while managers in collectivistic cultures might be more interested in their needs and the common good rather than focusing on getting higher pay (Greckhamer, 2011).

In addition, CSR is expected to be viewed differently based on these values. For example, in collectivistic cultures, managers might engage in CSR based on their belief in the common good, and regardless of whether or not they are encouraged to do so. Accordingly, using long-term incentives to motivate managers from these cultures to engage in CSR is not expected to have a stronger effect. On the other hand, managers from individualistic cultures are expected to prioritise their interests over those of society. Accordingly, linking their pay to long-term performance might motivate them to engage in CSR if they believe that CSR engagement positively affects firm performance. Accordingly, this study tests the following hypotheses:

Hypothesis 6: Individualistic/collectivistic cultural values moderate the link between long-term executive pay and CSR performance.

Hypothesis 7: Individualistic/collectivistic cultural values moderate the link between CSR performance and corporate financial performance.

4.4.2. The moderating effects of long- vs. short-term orientation

The cultural value of long- vs. short-term orientation refers to the tendency of individuals to focus on successes and achievements in the distant future, as opposed to a short-term focus (Hofstede, 2003). Accordingly, this value is expected to affect the link between long-term executive pay and CSR performance, since according to this value, managers will make a trade-off between long-term versus short-term benefits (Durach & Wiengarten, 2017). Accordingly, managers who belong to long-term orientation cultures are expected

to engage in CSR as a means of improving firm value in the long run. On the other hand, managers who belong to short-term orientation cultures are expected to favour short-term achievements and not to appreciate engaging in CSR as a means of improving firm value in the long run. Consequently, this is expected to affect the link between CSR and firm financial performance. Accordingly, this study tests the following hypotheses:

Hypothesis 8: Long- versus short-term orientation cultural values moderate the link between long-term executive pay and CSR performance.

Hypothesis 9: Long- versus short-term orientation cultural values moderate the link between CSR performance and corporate financial performance.

5. Research design

5.1. Data and sampling

This study focuses on an initial sample of 1,880 firms from 110 countries, constituting all tourism-related firms available on the DataStream database. This includes four main tourism sub-sectors: hospitality and travel, entertainment, airlines and restaurants. To be included in the final sample, a firm's data for long-term executive pay, CSR, corporate financial performance and corporate governance needed to be available in DataStream over the period 2010-2016. This resulted in excluding 1,751 firms due to incomplete or unavailable long-term executive pay data, as shown in Panel A of Table 3.1. In addition, twelve firms were excluded due to incomplete data, apart from long-term executive pay, leaving a final sample of 117 tourism-related firms from 25 countries.[10] This constitutes 819 firm-year observations over a period of seven years (2010-2016). The choice of the period of 2010-2016 is based on the lack of available data before 2010, whereas the most recent data available at the time of collection was from 2016.

Data on CSR and corporate governance were collected from the Asset4 database (embedded in DataStream). In addition, corporate financial performance and control variables data were also collected from DataStream. Country-level data were collected

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[10] Australia, Brazil, Canada, Chile, China, France, Germany, Greece, Hong Kong, Ireland, Italy Japan, Malaysia, New Zealand, Philippines, Singapore, South Africa, South Korea, Spain, Sweden, Taiwan, Thailand, Turkey, the UK, and the US.

from international institutions' websites: IMF (GDP data), the World Bank (inflation data), Transparency International (corruption data) and Hofstede Insights (cultural data).

Table 3.1: Sample selection procedures

Panel A: Sample selection	No.	
Total number of tourism-related firms available on DataStream	1,880	
Tourism-related firms that do not have long-term executive pay data available	(1,751)	
Firms with incomplete other data	(12)	
Total sample	**117**	
Panel B: Classification of final sample by tourism sub-sectors	No.	%
Hospitality and travel	44	37.6
Entertainment	27	23.1
Airlines	25	21.4
Restaurants	21	17.9
Total ample	**117**	**100**
Firm year observations (2010-2016)	**819**	

Panel B of Table 3.1 illustrates the classification of the final sample over the tourism sub-samples. The hospitality and travel sub-sector, which includes travel agencies, hotels, resorts, and transportation other than airlines, constitutes approximately 37.6 percent of the final sample. The entertainment sub-sector, including gaming companies and theatres, constitutes approximately 23.1 percent. The sub-sector of airlines and aviation companies constitutes approximately 21.4 percent, and, finally, the sub-sector of restaurants, including cafes, constitutes approximately 17.9 percent of the final sample.

The relatively small size of the final sample is mainly due to the availability of long-term executive pay data in the database, which is perhaps because transparency around the details of executive pay is still minimal in many countries. Despite the relatively small final sample of this research, it is still much higher than prior research in this area. For example, Mahoney and Thorne (2005) employ a sample of 90 Canadian firms for a period of five years (1992-1996) when investigating the association between long-term

executive pay and CSR. Further, the same authors, in another study, employ a sample of 77 Canadian firms in exploring whether boards use executive pay in pursuing social and environmental objectives (Mahoney & Thorn, 2006). However, US-based studies employ larger samples (Ji, 2015; Deckop et al., 2006; Berrone & Gomez-Mejia, 2009; Jian & Lee, 2015). This is due to the availability of the Compustat ExecuComp database, which provides executive compensation data, mainly for large US firms, as well as the availability of the KLD database, which provides CSR data for US firms. These databases mainly provide data only for US firms, which is not the scope of this research.

5.2. Variables and measures

Corporate social responsibility is the dependent variable of the main link investigated in this study. Prior research demonstrates different ways of measuring CSR based on the nature of the study and the research context. Some studies develop CSR indices due to data unavailability or the nature of the research context (e.g., Lanis & Richardson, 2012). On the other hand, other studies use indices that are produced by big agencies and institutions, such as KLD, Asset4 ESG, Innovest, DJSI, Calvert social index, FTSE4Good and the Canadian social investment database (Ji, 2015; Deckop et al., 2006; Berrone & Gomez-Mejia, 2009; Jian & Lee, 2015; Huseynov & Klamm, 2012; Davis, Guenther, Krull, & Williams, 2016; Qiu, Shaukat, & Tharyan, 2016; Cheng, Ioannou, & Serafeim, 2014; Carbone, Moatti, & Vinzi, 2012; Peng et al., 2014; Doh, Howton, Howton, & Siegel, 2010; Charlo, Moya, & Muñoz, 2015; Landry, Deslandes, & Fortin, 2013). The choice of CSR measurement seems to depend mainly on the availability of the required data in the major databases. For example, the KLD database, launched in 1990, provides CSR data mainly for US firms.[11] Accordingly, it is more relevant to studies that are conducted based on the US context. On the other hand, Asset4 ESG, which was launched in 2002, provides data from over 4,300 companies worldwide.[12] This research is based on an international sample. Accordingly, it follows a great deal of research (e.g., Qiu et al., 2016; Cheng et al., 2014; Lys, Naughton, & Wang, 2015) in measuring CSR performance based on the CSR index provided by the Asset4 ESG database.

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[11] http://3we057434eye2lrosr3dcshy.wpengine.netdna-cdn.com/wp-content/uploads/2018/03/KLD-on-WRDS.pdf
[12] Full details of this database can be accessed through the following link:
https://www.thomsonreuters.com/content/dam/openweb/documents/pdf/tr-com-financial/fact-sheet/esg-data-fact-sheet.pdf

Asset4 ESG provides four scores associated with CSR performance, including economic, environmental, social and corporate governance scores. This is done through using 280 KPIs, structured into 18 categories, and based on 750 data points.[13] In addition, to enhance comparability across the world, the database analysts transform any data that is not up to standard to make it consistent with the other data. Accordingly, this study constructs CSR score based on the average of three scores, namely: economic, social and environmental. Corporate governance score is used as a separate score measuring the strength of a firm's corporate governance system. This is because accounting literature shows that corporate governance is a separate variable (e.g., Black, Love, & Rachinsky, 2006). In addition, this study employs corporate financial performance as a dependent variable. This is measured by both return on capital employed (*ROIC*) and market value (*MV*). Their definitions are included in Table 3.2.

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[13] Methodology used in calculating scores can be accessed through the link included in note 2.

Table 3.2: Variable definitions

Dependent variables

CSR	=	the average of economic score, environmental score and social score provided by the Asset4 ESG database, where economic score is calculated through three categories, including client loyalty, performance and shareholder loyalty; environmental score is calculated through three categories, including resource reduction, emission reduction and product innovation; and social score is calculated through seven categories, including employment quality, health and safety, training and development, diversity, human rights, community, and product responsibility;
ROIC	=	(Net Income – Bottom Line + ((Interest Expense on Debt - Interest Capitalized) * (1-Tax Rate))) / Average of Last Year's and Current Year's (Total Capital + Short Term Debt & Current Portion of Long Term Debt) * 100;
MV	=	log of (the share price multiplied by the number of ordinary shares in issue);

Independent variable

LTPAY	=	log of executives' stock options;
LTPAY_R	=	stock options divided by the total of executive compensation;

Moderating variables

CG	=	the average of five categories including, board structure, compensation
INDIV	=	loosely knit social framework in which individuals are expected to only take care of themselves and their immediate families;
ORIE	=	focusing on the future by communities, including the willing to delay short-term material or social success in order to prepare for the future. If a society has this cultural perspective, it values persistence, perseverance, saving and being able to adapt;

Firm-level controls

FSIZE	=	log of total assets;
BDUAL	=	1 if CEO simultaneously chair the board, and 0 otherwise;
BDIV	=	1 if a firm has a policy regarding the diversity of its board, and 0 otherwise;
BEXP	=	1 if a firm has a policy regarding the adequate experience on its board, and 0 otherwise;
CCOMM	=	1 if a firm has a compensation committee, and 0 otherwise;
LEV	=	(long-term debt + short-term debt & current portion of long-term debt) / (Total capital + short-term debt & current portion of long-term debt);
PPE	=	property, plant and equipment divided by lagged total assets;

Country-level controls

INFL	=	the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling;
CORR	=	the level of perfection toward the misuse of public power for private benefit; and
GDP	=	the rate at which a country's gross domestic product changes from one year to another, where gross domestic product is the market value of all the goods and services produced in a country in a particular time period.

The main independent variable of this study is long-term executive pay. This is measured through the log of stock options. In addition, and in seeking greater robustness, this study employs another measurement for long-term executive pay. That is, following some prior research (Ji, 2015; Mahoney & Thorne, 2005; Mahoney & Thorn, 2006), this study uses the ratio of equity-based executive pay to total executive pay as another measurement in its robustness analyses. Corporate governance, as discussed above, is measured through the score provided by the Asset4 ESG database. Asset4 ESG measures the corporate governance score as the average of five categories: board structure, compensation policy, board functions, shareholder rights, and vision and strategy. Besides corporate governance, this study has two other moderating variables: individualism (*INDIV*) and long-term orientation (*ORIE*).

This study includes control variables at both firm and country levels. These include firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*) and GDP growth (*GDP*). The full definitions of all variables are presented in Table 3.2.

6. Empirical results and discussion

6.1. Descriptive statistics and bivariate analysis

Table 3.3 reports the descriptive statistics of all variables included in this research. Table 3.3 shows that the mean of the *CSR* scores across the sample is 53 percent, with a median of 53 percent as well. Scores range between 33.8 percent at the 25th percentile and 74 percent at the 75th percentile, indicating a wide variation between companies included in the sample in terms of their CSR performance.

Table 3.3: Descriptive statistics of all variables for all 819 firm years

Variable	Mean	Median	Std. Dev.	25th percentile	75th percentile
Dependent variables					
CSR	0.530	0.530	0.237	0.338	0.740
ROIC	0.122	0.087	0.162	0.042	0.170
MV	0.036	0.035	0.005	0.032	0.040
Independent variable					
LTPAY	0.069	0.070	0.005	0.066	0.073
LTPAY_R	0.602	0.586	0.224	0.321	0.723
Moderating variables					
CG	0.614	0.700	0.269	0.392	0.839
INDIV	0.711	0.890	0.267	0.460	0.910
ORIE	0.427	0.360	0.193	0.260	0.510
Firm-level controls					
FSIZE	6.672	6.713	0.602	6.330	7.136
BDUAL	0.420	0.000	0.493	0.000	1.000
BDIV	0.380	0.000	0.486	0.000	1.000
BEXP	0.839	1.000	0.367	1.000	1.000
CCOMM	0.930	1.000	0.249	1.000	1.000
LEV	0.567	0.470	0.926	0.268	0.664
PPE	0.459	0.484	0.263	0.221	0.684
Country-level controls					
INFL	0.020	0.017	0.015	0.009	0.030
CORR	0.731	0.760	0.123	0.750	0.810
GDP	0.026	0.022	0.025	0.017	0.026

All continuous variables are winsorized at the 5th and 95th percentiles.
Variables are defined as follows: corporate social responsibility (*CSR*), Return on invested capital (*ROIC*), firm market value (*MV*), executive equity-based compensation (*LTPAY*), executive equity-based compensation as a ratio to total executive pay (*LTPAY_R*), corporate governance (*CG*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2.

In terms of *LTPAY_R*, the mean is approximately 60 percent, indicating that a high proportion of executive pay in tourism-related firms is long-term oriented. In addition, the statistics show a wide variety across the sample, as the percentage at the 25th percentile is approximately 32 percent, whereas it is around 72 percent at the 75th percentile. On the other hand, CG scores are relatively high, with a mean of 61.4 percent. This might be because the final sample of this research mainly includes companies with a high level of

transparency, where detailed data on certain variables, such as executive pay, are disclosed. This high level of transparency might be an indicator of good corporate governance. However, there is generally a wide variation of scores, indicated by the scores at the 25th and 75th percentiles, at approximately 39 percent and 84 percent respectively. Similarly, ROIC, with a mean of approximately 12 percent, shows a wide variation across the sample, ranging between approximately 4 percent at the 25th percentile and 17 percent at the 75th percentile. In addition, descriptive statistics of moderating variables (*ORIE* and *INDIV*), firm-level controls (*FSIZE*, *BDUAL*, *BDIV*, *BEXP*, *CCOMM*, *LEV* and *PPE*) and country-level controls (*INFL*, *CORR* and *GDP*) show wide variation across the sample, which generally suggests that the sample has been properly selected and thus minimises the possibility of sample selection bias.

Table 3.4 presents the correlation matrix of the variables included in regression models. This has been done in order to test for multicollinearity. According to the matrix, the correlations among the variables, on average, are low, suggesting that no multicollinearity problems exist. The highest score in the matrix is 0.632, between (*LTPAY*) and (*LTPAY_R*). This was expected, because this score constitutes the correlation between two measures of the same variable (long-term executive pay). They are not included together in one regression model; rather, they are alternatives. The next highest scores are 0.582 and 0.509, between *LTPAY* and both of *MV* and *FSIZE* respectively. These were also expected, because big firms and firms with high market value are expected to pay their executives more than other firms. For the main link of this study, the correlation matrix shows a significant positive correlation between both measures of long-term executive pay and CSR, with 0.167** for the *LTPAY-CSR* link, and 0.139** for the *LTPAY_R-CSR* link. This is generally consistent with the findings of prior research (e.g., Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Ji, 2015; Deckop et al., 2006). In addition, the matrix shows that moderating variables (*ORIE* and *INDIV*), firm-level controls (*MV*, *FSIZE*, *BDIV*, *CCOMM*, *LEV* and *PPE*) and country-level controls (*INFL* and *GDP*) are significantly correlated to *CSR*.

Table 3.4: Pearson's correlation matrix of the variables for 819 firm years

Variable	CSR	LTPAY	LTPAY_R	ROIC	MV	FSIZE	BDUAL	BDIV	BEXP	CCOMM	LEV	PPE	ORIE	INDIV	INFL	CORR	GDP
CSR	1																
LTPAY	0.167**	1															
LTPAY_R	0.139**	0.632**	1														
ROIC	-0.068	0.029	-0.030	1													
MV	0.297**	0.582**	0.405**	0.118**	1												
FSIZE	0.471**	0.509**	0.357**	-0.298**	0.683**	1											
BDUAL	-0.013	0.194**	0.067	-0.059	0.177**	0.134**	1										
BDIV	0.238**	0.104**	0.116**	0.013	0.085*	0.074*	-0.093*	1									
BEXP	0.039	0.195**	0.076*	0.022	0.075*	0.095*	0.070	0.343**	1								
CCOMM	-0.213**	0.026	0.030	0.114**	-0.056	-0.141**	-0.038	-0.031	0.198**	1							
LEV	0.100**	0.124**	0.107**	-0.164**	0.015	0.129**	0.028	0.053	0.033	-0.043	1						
PPE	0.234**	0.069	0.001	-0.182**	0.088*	0.259**	0.070	-0.016	-0.034	-0.031	0.044	1					
ORIE	0.240**	-0.138**	0.066	-0.025	0.033	0.131**	-0.104**	0.051	-0.102**	-0.206**	-0.090*	0.076*	1				
INDIV	0.134**	0.267**	0.111**	0.000	-0.072	0.015	0.010	0.169**	0.248**	0.142**	0.130**	0.020	-0.527**	1			
INFL	-0.205**	-0.129**	-0.134**	-0.065	-0.123**	-0.101**	-0.061	-0.289**	-0.164**	-0.039	-0.037	0.018	0.198**	-0.356**	1		
CORR	0.043	0.313**	0.195**	0.020	0.143**	0.223**	-0.071	0.192**	0.395**	0.102**	0.044	0.082*	0.049	0.429**	-0.102**	1	
GDP	-0.161**	-0.004	0.015	0.049	0.113**	0.028	-0.047	0.016	0.020	0.061	-0.024	0.012	-0.025	-0.239**	-0.058	-0.002	1

Notes: **and* denote correlation is significant at the 1% and 5% level (2-tailed) respectively (two-tailed tests). Variables are defined as follows: corporate social responsibility (*CSR*), long-term executive pay (*LTPAY*), long-term executive pay as a ratio of total executive compensations (*LTPAY_R*), market value (*MV*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), long term orientation (*ORIE*), individualism (*INDIV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2.

6.2. Multivariate regression analyses

6.2.1. The link between long-term executive pay, CSR and corporate governance

This study examines the association between long-term executive pay and corporate social responsibility among tourism-related firms. One view, based on agency theory, is that managers are self-interested in nature and will tend to approach corporate decisions thinking of their own benefit, without being influenced by social norms (Fama & Jensen, 1983; Baiman, 1982; Magill & Quinzii, 2002; Mahoney & Thorne, 2005). Accordingly, when managers engage in CSR, it might be for personal gain (Friedman, 1970). Accordingly, when boards link managers' pay to long-term firm performance, this might lead managers to engage in CSR in order to improve firm reputation and firm value in the long term. An opposite view is that long-term executive pay might negatively affect CSR performance (McGuire et al., 2003). This is because these incentives do not work the same as actual equity, due to the lack of existence of the loss side. Therefore, these long-term incentives might motivate managers to engage in higher risks, wherein CSR activities might be neglected (Sanders, 2001; McGuire et al., 2003). A third view, based on stewardship and stakeholder theories, is that managers are good stewards and do the right thing, including considering the needs of shareholders and all other stakeholders (Chrisman et al., 2007; Davis et al., 1997; Godos-Díez et al., 2011). This view, therefore, suggests that when managers engage in CSR, they do so to improve long-term firm performance, regardless of whether their pay is linked to long-term performance. To investigate this association, this study employs regression models, following prior research conducted in this area (Mahoney & Thorne, 2005; Hong et al., 2016). The analysis begins with the following regression model, specified as follows:

$$CSR_{it} = \propto_0 + \beta_1 LTPAY_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \quad (11)$$

Where *CSR* is corporate social responsibility, *LTPAY* refers to long-term executive pay measured as the log of executive equity-based compensation, *INDIV* refers to individualism culture, and *ORIE* is long-term orientation culture. *CONTROLS* refers to the control variables of the study, including firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*),

leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*) and GDP growth (*GDP*).

Table 3.5 reports the OLS regression results of the association between *LTPAY* and *CSR*. The coefficient of *CSR* on *LTPAY* in Model I of Table 3.5 is very weak (0.017) and statistically insignificant (*P*-value = 0.650), suggesting no significant association between long-term executive pay and CSR engagement in tourism-related firms. This result might be interpreted based on multiple theoretical frameworks. First, based on the framework of stewardship and stakeholder theories, managers of tourism-related firms might be good stewards and engage in CSR activities, regardless of whether their pay is linked to long-term firm value, in order to improve firm reputation and, in turn, its long-term performance in such a risky sector. Accordingly, this might lead to a weak/no association between their pay and CSR engagement.

Alternatively, based on agency theory, and due to the high financial and business risk typically associated with this sector, managers might engage in CSR activities for private benefit, to compensate themselves for the high risks they bear. Therefore, this might weaken the association between executive pay generally and CSR engagement. This result appears to be consistent with the findings of McGuire et al. (2003), who find no association between executive incentives and strong social performance. However, if this is the case, then firms with strong corporate governance systems are expected to control this behaviour and show different findings for this link. Accordingly, the moderating effect of corporate governance on the link between long-term executive pay and CSR engagement was investigated. This was achieved by dividing the sample based on the mean of the corporate governance scores, into two sub-samples: well-governed firms and poorly governed firms. Then, Equation (11) was re-run for each of these sub-samples. Models II and III of Table 3.5 illustrate the results of these runs respectively.

Table 3.5: The link between long-term executive pay, CSR and CG with OLS

Dependent	Model I Main model CSR_t		Model II High CG CSR_t		Model III Low CG CSR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
LTPAY	0.017	0.650	0.126	0.010**	-0.085	0.140
Moderating variables						
INDIV	0.500	0.000***	0.426	0.000***	0.314	0.000***
ORIE	0.424	0.000***	0.535	0.000***	0.403	0.000***
Firm-level controls						
FSIZE	0.436	0.000***	0.413	0.000***	0.308	0.000***
BDUAL	-0.054	0.063	-0.057	0.133	-0.101	0.023*
BDIV	0.135	0.000***	0.116	0.003**	0.073	0.189
BEXP	0.024	0.453	0.103	0.011*	-0.140	0.006**
CCOMM	-0.055	0.068	-0.004	0.918	-0.292	0.000***
LEV	0.025	0.369	0.001	0.978	-0.023	0.633
PPE	0.152	0.000***	0.111	0.003**	0.174	0.001***
Country-level controls						
INFL	-0.086	0.044*	-0.085	0.168	-0.281	0.000***
CORR	-0.314	0.000***	-0.348	0.000***	-0.311	0.000***
GDP	-0.080	0.008**	-0.062	0.089	-0.066	0.184
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	-0.655	0.000***	-0.745	0.000***	0.265	0.076
Standard	0.174		0.167		0.133	
Durbin-	1.991		1.926		2.044	
F-Value	32.062***		19.624***		19.968***	
Adjusted R^2	0.464		0.419		0.654	
Observations	819		553		266	

Notes: This table illustrates the estimated OLS regressions coefficients from three models testing the association between long-term executive pay and CSR engagement as follows. Model I presents the association between long-term executive pay and CSR engagement for the whole sample, whereas Model II and model III, through dividing the main sample into two sub-samples based on the mean of CG score, examining whether CG moderates the link between long-term executive pay and CSR engagement. Model II illustrates the results of this relationship among firms that have strong CG system, whereas model III illustrates the results of this association among firms that have poor CG system. Variables are defined as follows: corporate social responsibility (*CSR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

The coefficient of *CSR* on *LTPAY* in Model II of Table 3.5 is positive and statistically significant (*P*-value = 0.010). The economic significance of this association is indicated by the coefficient of (0.126) in Model II, which suggests that, *ceteris paribus*, an increase of one unit of the standard deviation of *LTPAY*, for example, can be expected to lead to about a 0.63 (0.005*1.26*100) percent increase in *CSR*. This seems to suggest that in well-governed tourism-related firms, linking executive pay to long-term firm performance motivates managers to engage in CSR activities, and therefore this provides support to Hypothesis 2. This result might be explained based on agency theory (Fama & Jensen, 1983; Baiman, 1982), where managers are typically expected to engage in CSR for their own interest, especially in such a risky sector. However, having strong corporate governance in place is expected to align the interests of self-interested managers with those of shareholders. Accordingly, linking executive pay with long-term firm value is expected to motivate managers to engage in CSR for firm value maximisation purposes, which is aligned with shareholders' interests. This result is consistent with the findings of a great deal of empirical research, which generally shows a positive association between long-term executive pay and CSR (e.g., Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Ji, 2015; Deckop et al., 2006; Berrone & Gomez-Mejia, 2009). These results are also consistent with research that finds a positive impact of corporate governance on this link (e.g., Jian & Lee, 2015). Furthermore, these results help in understanding the results of Hypothesis 1, presented in Model I of Table 3.5. That is, they suggest that the strength of the corporate governance system is a crucial factor in understanding the link between long-term executive pay and CSR engagement.

Similarly, Model III of Table 3.5 presents the results of the link between long-term executive pay and CSR, but among poorly governed firms. The coefficient of *CSR* on *LTPAY* in Model II is negative (-0.085) but statistically insignificant (*P*-value = 0.140), indicating that, among poorly governed tourism-related firms, there is no significant association between *LTPAY* and *CSR*. This provides support for Hypothesis 3, which predicts a weak/no association between long-term executive pay and CSR in poorly governed firms. This can be explained based on agency theory, where when corporate governance systems are weak, managers will tend to exploit them in directing corporate activities towards their own interests. Accordingly, they are expected to dominate pay

arrangements and engage in CSR activities for personal benefit. Therefore, the pay-CSR link is expected to be weak, which indeed is supported by the results of testing Hypothesis 3. In addition, the typically high risks associated with tourism-related firms may contribute to this result, since managers in this sector are expected to have greater motivation to exploit poor corporate governance in extracting rents, in order to compensate themselves for the high risks they bear.

6.2.2. The link between CSR, financial performance and corporate governance

In order to ascertain whether CSR positively affects firm financial performance, Equation (11) has been specified as follows:

$$CFP_{it} = \propto_0 + \beta_1 CSR_{it-1} + \beta_2 INDIV_{it-1} + \beta_3 ORIE_{it-1} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \quad (12)$$

Where *CFP* is either firms' return on invested capital (*ROIC*) or firm market value (*MV*), *CSR* is the corporate social responsibility of the previous year, *INDIV* refers to individualism culture, and *ORIE* is long-term orientation culture. *CONTROLS* refers to control variables of the study, including firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*) and GDP growth (*GDP*).

Table 3.6: The effect of CSR performance on corporate financial performance (ROIC)

	Model I Main model		Model II High CG		Model III Low CG	
Dependent	$ROIC_t$		$ROIC_t$		$ROIC_t$	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
CSR_{t-1}	0.128	0.001**	0.187	0.000**	0.066	0.200
Moderating variables						
INDIV	-0.123	0.061	-0.175	0.029*	0.016	0.839
ORIE	-0.098	0.120	-0.184	0.004**	0.039	0.664
Firm-level controls						
FSIZE	-0.320	0.000**	-0.309	0.000**	-0.327	0.000**
BDUAL	-0.013	0.694	-0.033	0.475	-0.060	0.185
BDIV	-0.045	0.234	-0.084	0.091	-0.025	0.637
BEXP	0.038	0.399	-0.046	0.349	0.077	0.206
CCOMM	-0.005	0.917	-0.026	0.566	0.076	0.330
LEV	-0.130	0.000**	-0.123	0.005**	-0.260	0.000**
PPE	-0.141	0.000**	-0.144	0.002**	-0.125	0.052
Country-level controls						
INFL	-0.091	0.029*	0.023	0.781	-0.062	0.239
CORR	0.130	0.002**	0.112	0.031*	0.067	0.275
GDP	0.110	0.001**	0.126	0.006**	0.081	0.103
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	0.609	0.000**	0.771	0.000***	0.546	0.000***
Standard error	0.142		0.162		0.104	
Durbin-Watson	2.007		2.039		1.817	
F-Value	10.642***		4.633***		11.412***	
Adjusted R^2	0.179		0.124		0.360	
Observations	819		553		266	

Notes: This table illustrates the estimated OLS regressions coefficients from three models testing the effect of CSR engagement on corporate financial performance (ROIC). Model I presents the results of this association in the whole sample. Whereas, Model II illustrates the results of this link among firms that have strong CG system and model III illustrates the results of this association among firms that have poor CG system. Variables are defined as follows: return on invested capital (*ROIC*), corporate social responsibility (*CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Generally, Table 3.6 and Table 3.7 show that there are positive effects of CSR on firm financial performance, as well as a positive moderating effect of corporate governance on this link. Specifically, Model I of Table 3.6 shows that CSR positively affects firm financial performance, measured by ROIC. That is, the coefficient of *ROIC* on *CSR* is positive (0.128) and statistically significant (*P*-value = 0.001). Economically, this evidence suggests that an increase (decrease) of one unit of the standard deviation of *CSR* will lead to about a 0.03 percent (0.237*0.128) increase (decrease) in *ROIC*. Similarly, Model I of Table 3.7 shows that CSR is positively associated with firm market value, where the coefficient of *MV* on *CSR* is positive (0.058) and statistically significant at the 10 percent level (*P*-value = 0.055). Theoretically, according to stakeholder theory, where a firm is viewed as a nexus of contracts, if CSR investment contributes to each of the stakeholder groups, they will add value to the firm in exchange (Jian & Lee, 2015). For example, when a company invests in improving its product/service quality, customers in exchange might become loyal to the company, which contributes to firm value. A great deal of empirical research has found that CSR has positive effects on firm reputation, customer satisfaction and competitive advantage, and therefore positively affects firm financial performance (e.g., Saeidi et al., 2015; Zhu, Sun, & Leung, 2014; McWilliams & Siegel, 2011).

Additionally, Model II of Table 3.6 and Model II of Table 3.7 show that the positive effect of CSR on corporate financial performance is stronger in well-governed firms, providing support to Hypothesis 4. Specifically, the coefficient of *ROIC* on *CSR* in Model II of Table 3.6 is stronger than that of Model I of Table 3.6 (0.187 vs. 0.128) and statistically shows a higher significance level (*P*-value = 0.000 vs. 0.001). This suggests that a strong corporate governance system strengthens the positive effect of CSR on ROIC. Similarly, the coefficient of *MV* on *CSR*, in Model II of Table 3.7, is stronger than that of Model I of Table 3.7 (0.174 vs. 0.058) and statistically shows a higher significance level (*P*-value = 0.000 vs. 0.058). Accordingly, this suggests that a strong corporate governance system strengthens the positive effect of CSR on a firm's market value.

Table 3.7: The effect of CSR on corporate financial performance (market value)

	Model I		Model II		Model III	
	Main model		High CG		Low CG	
Dependent	MV_t		MV_t		MV_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
CSR_{t-1}	0.058	0.055	0.174	0.000***	-0.053	0.169
Moderating variables						
INDIV	-0.269	0.000***	-0.333	0.000***	-0.084	0.141
ORIE	-0.250	0.000***	-0.349	0.000***	-0.056	0.395
Firm-level controls						
FSIZE	0.668	0.000***	0.543	0.000***	0.913	0.000***
BDUAL	0.123	0.000***	0.097	0.007**	0.102	0.002**
BDIV	-0.002	0.951	0.012	0.755	-0.064	0.098
BEXP	-0.041	0.246	-0.076	0.047*	-0.027	0.548
CCOMM	-0.101	0.013*	-0.081	0.018*	0.000	0.993
LEV	-0.084	0.001***	-0.061	0.067	-0.265	0.000***
PPE	-0.148	0.000***	-0.126	0.000***	-0.165	0.001***
Country-level controls						
INFL	-0.050	0.124	0.067	0.294	0.008	0.847
CORR	0.164	0.000***	0.096	0.017*	0.167	0.000***
GDP	0.077	0.004**	0.077	0.031*	0.098	0.008**
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	-0.277	0.172	0.596	0.077	-1.031	0.000***
Standard error	0.372		0.397		0.288	
Durbin-	1.921		1.892		1.846	
F-Value	45.177***		25.020***		35.581***	
Adjusted R^2	0.502		0.487		0.651	
Observations	819		553		266	

Notes: This table illustrates the estimated OLS regressions coefficients from three models testing the effect of CSR engagement on corporate financial performance (market value). Model I presents the results of this association in the whole sample. Whereas, Model II illustrates the results of this link among firms that have strong CG system and model III illustrates the results of this association among firms that have poor CG system. Variables are defined as follows: market value (*MV*), corporate social responsibility (*CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

These findings are generally consistent with the findings of testing Hypothesis 2, which imply that executives of well-governed firms engage in CSR as a means of improving corporate financial performance and firm value. Similarly, these results might be interpreted in line with those of testing Hypothesis 2, suggesting that well-governed firms control managers' tendencies to engage in CSR for private benefit, especially in a risky sector like the tourism sector. Rather, they will be able to align managers' interests with those of stakeholders, and therefore motivate managers to engage in CSR to maximise firm value. These findings are consistent with those of Ntim and Soobaroyen (2013), who find that the combination of corporate governance and CSR has a stronger positive effect on corporate financial performance.

On the other hand, Model III of Table 3.6 and Model III of Table 3.7 show that the positive effect of CSR on corporate financial performance weakens or vanishes in poorly governed firms, providing support to Hypothesis 5. Specifically, the coefficient of *ROIC* on *CSR* in Model III of Table 3.6 is weaker than that of Model I of Table 3.6 (0.066 vs. 0.128) and turns out to be statistically insignificant (*P*-value = 0.200 vs. 0.001). This suggests that a weak corporate governance system weakens the positive effect of CSR on ROIC. On the other hand, the coefficient of *MV* on *CSR* in Model III of Table 3.7 is negative (-0.053) and statistically insignificant (*P*-value = 0.169), compared to positive (0.058) and statistically significant at the 10 percent level (*P*-value = 0.055) for the whole sample in Model I of Table 3.6. This suggests that a weak corporate governance system has a negative impact on the link between CSR and firm market value. These findings are generally consistent with the findings of testing Hypothesis 3, which imply that executives in poorly governed firms do not engage in CSR activities as a means of improving corporate financial performance and firm value, but rather as a means of extracting rents.

These findings might be interpreted based on agency theory, in line with those of Hypothesis 3, where when a corporate governance system is weak, managers will tend to exploit it in directing CSR activities towards their own interests. This might include improving their reputations, developing their networks with stakeholders and advancing their careers (Fabrizi et al., 2014; Jian & Lee, 2015; Barnea & Rubin, 2010). Accordingly, this is expected to weaken the link between CSR and firm financial performance and might even turn out to be negative relation, as in Model III of Table 3.7. This is because this

managerial behaviour results in spending corporate resources on non-value-added activities, therefore decreasing firm value. In addition, these results seem to be generally consistent with the notion that tourism-related are associated with higher levels of risk. That is, managers' tendencies to extract rents might be higher in this sector, and therefore leading to greater motivation for them to exploit poor corporate governance systems. This eventually results in a weaker association between CSR and corporate financial performance in poorly governed firms. These findings are generally consistent with Hong et al. (2016), who suggest that the impact of corporate governance on CSR is likely to happen through its influence on individual executives, which is the reason behind the mixed results of prior research on the influence of CG on CSR.

6.2.3. The effects of cultural values

6.2.3.1. The effect of individualistic/collectivistic cultural values

This study explores the possible moderating effect of cultural values on the links between long-term executive pay, CSR and corporate financial performance. Accordingly, the sample was divided twice. First, it was divided based on the mean of individualism (*INDIV*) scores into two sub-samples: high *INDIV* and low *INDIV*. Second, and separately, it was divided based on the mean of long-term orientation (*ORIE*) score into two sub-samples: high *ORIE* and low *ORIE*. Equations (11) and (12) were re-run for each of these sub-samples, and the results are illustrated in Tables 3.8, 3.9 and 3.10.

Table 3.8: The relationship between long-term executive pay and CSR - the effects of cultural values

Dependent variable	Model I High *INDIV* CSR_t Coefficients	*P*-values	Model II Low *INDIV* CSR_t Coefficients	*P*-values	Model III High *ORIE* CSR_t Coefficients	*P*-values	Model IV Low *ORIE* CSR_t Coefficients	*P*-values
Independent variable								
LTPAY	0.102	0.029*	-0.047	0.357	0.167	0.001***	-0.190	0.000***
Moderating variables								
INDIV	0.197	0.004**	0.824	0.000***	0.174	0.170	0.616	0.000***
ORIE	0.525	0.000***	-0.014	0.869	0.344	0.001***	0.166	0.006**
Firm-level controls								
FSIZE	0.436	0.000***	0.833	0.000***	0.423	0.000***	0.550	0.000***
BDUAL	0.042	0.215	0.032	0.530	0.051	0.265	-0.014	0.710
BDIV	0.137	0.000***	0.109	0.069	0.207	0.000***	0.143	0.000***
BEXP	0.097	0.005**	-0.126	0.041*	-0.062	0.174	0.050	0.243
CCOMM	0.043	0.209	-0.210	0.003**	0.043	0.437	-0.259	0.000***
LEV	0.033	0.283	-0.018	0.814	0.075	0.098	0.041	0.261
PPE	0.113	0.001***	0.119	0.103	-0.082	0.045*	0.249	0.000***
Country-level controls								
INFL	0.176	0.025*	-0.242	0.001***	-0.127	0.172	-0.283	0.000***
CORR	-0.176	0.000***	0.227	0.004**	-0.303	0.000***	-0.537	0.000***
GDP	-0.015	0.665	-0.065	0.297	-0.232	0.000***	-0.074	0.068
YD	Included	-	Included	-	Included	-	Included	-
CountryD	Included	-	Included	-	Included	-	Included	-
Constant	-1.380	0.000***	-1.600	0.000***	-1.097	0.000***	0.063	0.716
Standard error	0.166		0.139		0.144		0.170	
Durbin-Watson	2.055		2.214		1.970		1.848	
F-Value	29.821***		16.121***		25.589***		19.067***	
Adjusted R^2	0.513		0.642		0.644		0.448	
Number of obs.	539		280		379		440	

Notes: This table illustrates the estimated OLS regressions coefficients from four models testing the association between long-term executive pay and CSR as follows. Model I presents this association among companies belong to countries with high individualism score and Model II examines this association among companies belong to countries with low individualism score. Whereas, Model III examines the same association but among companies belong to countries with high long-term orientation score and Models IV examines the association among companies belong to countries with low long-term orientation score. Variables are defined as follows: corporate social responsibility (*CSR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level

Model I and Model II of Table 3.8 present the moderating effect of individualism/collectivism on the link between long-term executive pay and CSR. The coefficient of *CSR* on *LTPAY* in Model I of Table 3.8 is positive (0.102) and statistically significant (*P*-value = 0.029), suggesting a positive association between long-term executive pay and CSR among companies belonging to countries with a high level of individualism (low collectivism). On the other hand, the coefficient of *CSR* on *LTPAY* in Model II of Table 3.8 is negative (-0.047) but statistically insignificant (*P*-value = 0.357), suggesting a weak association between long-term executive pay and CSR among companies belonging to countries with a low level of individualism (high collectivism).

These results therefore provide support to Hypothesis 6, which is that individualistic/collectivistic cultural values moderate the link between long-term executive pay and CSR. These results seem to support the notion that managers of collectivistic cultures engage in CSR as a means of achieving a common good, i.e. based on their values and regardless of whether they are motivated to engage in it. This might justify the insignificant association between long-term executive pay and CSR among companies belonging to countries with a high level of collectivism (low individualism). On the other hand, in individualistic cultures, where managers tend to prioritise their own interests over those of the group (Hofstede, 1980, 2003), there is a need to motivate them to engage in CSR. Accordingly, motivating managers by linking their own pay to long-term firm value may push them to engage in activities that contribute to this end. This might include engaging in CSR activities, if managers believe that these activities are profitable. These activities will contribute to firm value, and therefore to managers' wealth. This, then, might justify the positive and significant impact of long-term executive pay on CSR in companies belonging to countries with a high level of individualism (low collectivism).

Table 3.9: The relationship between CSR and ROIC - the effects of cultural values

Dependent variable	Model I High *INDIV* *ROIC*$_t$		Model II Low *INDIV* *ROIC*$_t$		Model III High *ORIE* *ROIC*$_t$		Model IV Low *ORIE* *ROIC*$_t$	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable								
CSR$_{t-1}$	0.276	0.000***	-0.049	0.392	0.117	0.072	0.249	0.000***
Moderating variables								
INDIV	-0.055	0.514	-0.057	0.387	-0.164	0.118	-0.150	0.235
ORIE	-0.182	0.012*	-0.071	0.397	-0.319	0.024*	-0.055	0.461
Firm-level controls								
FSIZE	-0.395	0.000***	-0.300	0.000***	-0.406	0.000***	-0.341	0.000***
BDUAL	-0.011	0.807	-0.110	0.026*	0.022	0.640	-0.049	0.300
BDIV	-0.056	0.246	-0.126	0.021*	0.036	0.547	-0.075	0.132
BEXP	0.057	0.232	-0.045	0.504	0.046	0.519	-0.011	0.834
CCOMM	-0.080	0.092	0.185	0.030*	-0.181	0.073	0.016	0.783
LEV	-0.145	0.001***	-0.349	0.000***	0.079	0.140	-0.167	0.000***
PPE	-0.150	0.001***	0.092	0.258	-0.037	0.498	-0.246	0.000***
Country-level controls								
INFL	-0.110	0.337	-0.045	0.447	0.063	0.380	-0.188	0.013*
CORR	0.031	0.529	0.044	0.518	0.057	0.367	0.183	0.085
GDP	0.094	0.042	0.014	0.827	0.104	0.094	0.114	0.020*
YD	Included	-	Included	-	Included	-	Included	-
CountryD	Included	-	Included	-	Included	-	Included	-
Constant	0.977	0.000***	0.622	0.000***	0.872	0.000***	0.651	0.000***
Standard error	0.155		0.110		0.110		0.163	
Durbin-Watson	2.069		1.893		2.049		2.078	
F-Value	5.971***		9.059***		7.187***		6.565***	
Adjusted R^2	0.158		0.314		0.219		0.202	
Number of obs.	539		280		379		440	

Notes: This table illustrates the estimated OLS regressions coefficients from four models testing the association between CSR and ROIC as follows. Model I presents this association among companies belong to countries with high individualism score and Model II examines this association among companies belong to countries with low individualism score. Whereas, Model III examines the same association but among companies belong to countries with high long-term orientation score and Models IV examines the association among companies belong to countries with low long-term orientation score. Variables are defined as follows: return on invested capital (*ROIC*), corporate social responsibility (*CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level

The above interpretation is mainly built on the notion that CSR positively influences firm performance. Accordingly, to further understand these results, the impact of CSR on firm performance has been investigated in high individualism and low individualism cultures. Model I and Model II of Table 3.9 illustrate the moderating effect of individualistic culture on the association between CSR and ROIC. The coefficient of *ROIC* on *CSR* in Model I of Table 3.9 is positive (0.276) and statistically significant (*P*-value = 0.000), suggesting a positive effect of CSR on ROIC among companies belonging to countries with a high level of individualism (low collectivism). On the other hand, the coefficient of *ROIC* on *CSR* in Model II of Table 3.9 is negative (-0.049) and statistically insignificant (*P*-value = 0.392), suggesting a weak association between CSR and ROIC among companies belonging to countries with a low level of individualism (high collectivism). In addition, the moderating effect of individualistic/collectivistic cultural values on the link between CSR and corporate market value has been investigated, and the results are presented in Model I and Model II of Table 3.10. The coefficient of *MV* on *CSR* in Model I of Table 3.10 is positive (0.190) and statistically significant (*P*-value = 0.000), suggesting a positive impact of CSR on corporate market value among companies belonging to countries with a high level of individualism (low collectivism). On the other hand, the coefficient of *MV* on *CSR* in Model II of Table 3.10 is positive (0.035) but statistically insignificant (0.356), suggesting a weak association between CSR and corporate market value among companies that belong to countries with a low level of individualism (high collectivism).

Table 3.10: The relationship between CSR and firm market value - the effects of cultural values

Dependent variable	Model I High *INDIV* MV_t Coefficients	P-values	Model II Low *INDIV* MV_t Coefficients	P-values	Model III High *ORIE* MV_t Coefficients	P-values	Model IV Low *ORIE* MV_t Coefficients	P-values
Independent variable								
LTPAY	0.190	0.000***	0.035	0.356	0.194	0.000***	0.062	0.126
Moderating variables								
INDIV	-0.067	0.282	-0.035	0.423	-0.194	0.022	-0.067	0.447
ORIE	-0.339	0.000***	-0.097	0.080	-0.191	0.093	-0.214	0.000***
Firm-level controls								
FSIZE	0.530	0.000***	0.709	0.000***	0.579	0.000	0.645	0.000***
BDUAL	0.074	0.028*	0.105	0.002**	0.069	0.071	0.083	0.012*
BDIV	0.054	0.138	-0.135	0.000***	-0.029	0.556	0.071	0.040*
BEXP	-0.014	0.694	-0.080	0.077	-0.099	0.089	-0.108	0.005**
CCOMM	-0.095	0.007**	0.042	0.453	-0.162	0.047	-0.055	0.185
LEV	-0.076	0.014*	-0.438	0.000***	-0.256	0.000	-0.068	0.031*
PPE	-0.142	0.000***	0.181	0.001***	-0.026	0.546	-0.139	0.000***
Country-level controls								
INFL	0.003	0.967	0.026	0.519	0.055	0.346	-0.187	0.000***
CORR	-0.101	0.006**	0.191	0.000***	0.073	0.153	0.006	0.936
GDP	0.066	0.058	0.067	0.114	0.050	0.316	0.075	0.029*
YD	Included	-	Included	-	Included	-	Included	-
CountryD	Included	-	Included	-	Included	-	Included	-
Constant	1.715	0.000***	-0.091	0.758	0.661	0.130	0.378	0.260
Standard error	0.377		0.267		0.328		0.363	
Durbin-Watson	2.164		1.988		2.020		2.067	
F-Value	31.353***		41.773***		22.313***		36.076***	
Adjusted R^2	0.537		0.698		0.491		0.617	
Number of obs.	539		280		379		440	

Notes: This table illustrates the estimated OLS regressions coefficients from four models testing the association between CSR and firm market value as follows. Model I presents this association among companies belong to countries with high individualism score and Model II examines this association among companies belong to countries with low individualism score. Whereas, Model III examines the same association but among companies belong to countries with high long-term orientation score and Models IV examines the association among companies belong to countries with low long-term orientation score. Variables are defined as follows: Firm market value (*MV*), corporate social responsibility (*CSR*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level

These results therefore provide support to Hypothesis 7, wherein individualistic/collectivistic cultural values moderate the link between CSR and corporate financial performance. These results are consistent with the results of Hypothesis 6. The results show that CSR is positively associated with both ROIC and corporate market value in highly individualistic (low collectivistic) cultures. This supports and further justifies the results of Hypothesis 6, regarding the positive effect of long-term executive pay on CSR among these cultures. This suggests that managers in highly individualistic cultures might consider the short-term effect of their CSR investments in order to influence market share price in the following year, with a view to capitalise on any due stock options. On the other hand, the results show a weak association between CSR and both ROIC and corporate market value in low individualism (high collectivism) cultures. This might be interpreted based on the notion that managers in collectivistic cultures may engage in CSR for the common good. They, then, might pursue strategic CSR engagement, which might take some years to affect financial performance and market firm value, since they are not expected to target short-term gains from CSR investments. This might justify the weak association between CSR investment and corporate financial performance of the following year in collectivistic cultures.

6.2.3.2. The effect of long- vs. short-term orientation

Similarly, Model III and Model IV of Table 3.8 illustrate the moderating effects of long- vs. short-term orientation as a cultural value on the association between long-term executive pay and CSR. The coefficient of *CSR* on *LTPAY* in Model III of Table 3.8 is positive (0.167) and statistically significant (*P*-value = 0.001), suggesting a positive association between long-term executive pay and CSR among companies belonging to countries with a high level of long-term orientation. On the other hand, the coefficient of *CSR* on *LTPAY* in Model IV of Table 3.8 is negative (-0.190) and statistically significant (*P*-value = 0.000), suggesting a negative association between long-term executive pay and CSR among companies belonging to countries with a high level of short-term orientation. These results therefore provide support to Hypothesis 8, wherein long-/short-term orientation cultural values moderate the link between long-term executive pay and CSR.

These results seem to be consistent with the notion that managers in a long-term orientation culture look to the distant future and appreciate long-term benefits over short-term ones (Hofstede, 2003). Accordingly, when their wealth is linked to long-term performance, this would further motivate them to devote their efforts to enhancing long-term firm performance. This might include engaging in CSR activities, if they positively affect firm market value. This, therefore, might explain the positive and significant association between long-term executive pay and CSR among companies in long-term orientation cultures. On the other hand, managers in short-term orientation cultures are expected to focus on short-term benefits, and not appreciate long-term ones (Hofstede, 2003). Accordingly, they are expected only to engage in CSR activities that affect short-term performance. Therefore, when they have their pay linked to long-term firm performance, they may engage in activities that are more visible in terms of their direct effect on long-term performance, at the expense of CSR activities. This may explain the negative association between long-term executive pay and CSR among companies that belong to countries with a short-term orientation.

Similarly, the moderating effect of long-/short-term orientation cultural values on the link between CSR and firm financial performance has been investigated. Model III and Model IV of Table 3.9 illustrate the moderating effect of these cultural values on the association between CSR and ROIC. The coefficient of *ROIC* on *CSR* in Model III of Table 3.9 is positive (0.117) and statistically significant at the 10 percent level (*P*-value = 0.072), suggesting a positive effect of CSR on ROIC among companies belonging to countries with a long-term orientation. In addition, the coefficient of *ROIC* on *CSR* in Model IV of Table 3.9 is positive (0.249) and statistically significant (*P*-value = 0.000), suggesting a significant positive association between CSR and ROIC among companies belonging to countries with a short-term orientation.

Similarly, Model III and Model IV of Table 3.10 illustrate the moderating effect of long-/short-term orientation cultural values on the association between CSR and corporate market value. The coefficient of *MV* on *CSR* in Model III of Table 3.10 is positive (0.194) and statistically significant (*P*-value = 0.000), suggesting a positive impact of CSR on corporate market value among companies belonging to countries with a long-term orientation culture. On the other hand, the coefficient of *MV* on *CSR* in Model IV of Table

3.10 is positive (0.062) but statistically insignificant (P-value = 0.126), suggesting a weak positive association between CSR and corporate market value among companies belonging to countries with a short-term orientation culture.

These results therefore provide support to Hypothesis 9, wherein long-/short-term orientation cultural values moderate the link between CSR and corporate financial performance. These results are generally consistent with the findings of Hypothesis 8. The results show that CSR is positively associated with both ROIC and corporate market value in long-term orientation cultures. This supports the findings of Hypothesis 8 of the positive effect of long-term executive pay on CSR, where managers of long-term orientation cultures are expected to engage in activities that are profitable in the long term. Accordingly, as CSR engagement is generally profitable in these cultures, according to the findings of Hypothesis 9, this may explain the positive association between long-term executive pay and CSR. That is, managers engage in CSR activities in order to maximise firm value and, in turn, share price, which eventually contributes to their wealth.

On the other hand, the results show a positive association between CSR and ROIC, but an insignificant association between CSR and corporate market value in short-term orientation cultures. As discussed, managers in short-term orientation cultures are expected to focus on short-term benefits, and not appreciate long-term ones (Hofstede, 2003). Accordingly, they will only engage in CSR activities with short-term benefit. This might explain the positive impact of CSR on ROIC of the following year. However, because these CSR activities are not strategic, their impact on firm value in the short run is expected to be minimal, which supports the positive but insignificant association between CSR and corporate market value in the following year.

6.2.4. Robustness analyses

In this section, endogeneity problems are addressed and an alternative measurement for long-term executive pay is used.

6.2.4.1. Endogeneity problems

Prior empirical literature shows that endogeneity problems might affect the validity of empirical results (Chenhall & Moers, 2007). Endogeneity problems generally happen when a variable is correlated to the error term (Wooldridge, 2010). This might happen in this research if *LTPAY*, which is supposed to be exogenous in Equation (11), is found to be correlated to the error term. According to Larcker and Rusticus (2010), omitted variables and simultaneity are the main causes of endogeneity problems. The omitted variable problem happens when a model lacks the inclusion of one or more variables that contribute to its explanatory power (Chenhall & Moers, 2007). The reason behind the exclusion might be data unavailability, time limitations or any other reason (Chenhall & Moers, 2007). On the other hand, a simultaneity problem occurs when the independent variable(s) is simultaneously determined by the dependent variable (Larcker & Rusticus, 2010). For example, in this research, the main objective is to address the effect of long-term executive pay on CSR performance. However, some research has found that a firm's CSR performance can affect the executive compensation (Cai et al., 2011; Collett Miles & Miles, 2013; Rekker, Benson, & Faff, 2014). This suggests that the association between long-term executive pay and CSR might be determined simultaneously. In order to investigate these endogeneity problems, this study follows prior research in performing a lagged structure (e.g., Callan & Thomas, 2011; McGuire et al., 2003; Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Cai et al., 2011) and Two-Stage Least Squares (*2SLS*) regression analysis (e.g., Jian & Lee, 2015; Cai et al., 2011). First, the lagged structure technique was performed to test the simultaneity problem, which might happen due to the association between lagged *LTPAY* and *CSR*. Accordingly, Equation (11) was re-estimated as follows:

$$CSR_{it} = \propto_0 + \beta_1 LTPAY_{it-1} + \beta_2 INDIV_{it-1} + \beta_3 ORIE_{it-1} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it-1} + \varepsilon_{it-1} \quad (13)$$

Where everything is defined as in Equation (11), except for introducing a year lag between both sides of the equation, where the current year's *CSR* depends on the previous year's *LTPAY*.

A comparison between the results of the main analysis of both high CG and low CG sub-samples and the lagged structure of the same sub-samples is illustrated in Table 3.11. The results of the lagged structure of the sub-sample of high CG firms, presented as Model II in Table 3.11, are very similar to those of the main analysis of the same sub-sample. That is, the coefficient of *CSR* on *LTPAY* is positive (0.153) and statistically significant (*P*-value = 0.003), which is similar to the main analysis (0.126 and *P*-value = 0.010). Similarly, the results of the lagged structure of the low CG sub-sample, presented as Model III in Table 3.11, are close to those of the main analysis of the same sample, presented as Model IV in Table 3.11. That is, despite the different direction, both models show an insignificant association between *LTPAY* and CSR. In addition, the results of the control variables of the lagged structure analysis generally show very similar results to those of the main analysis. Collectively, these results support the findings of the main analysis of this research and suggest that the research findings are robust.

Table 3.11: The link between long-tern executive pay and CSR- a comparison between the main analysis and lagged structure

	Model I		Model II		Model III		Model IV	
	High CG				Low CG			
	Main analysis		Lagged structure		Main analysis		Lagged structure	
Dependent variable	CSR_t		CSR_{t+1}		CSR_t		CSR_{t+1}	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable								
LTPAY	0.126	0.010**	0.153	0.003**	-0.085	0.140	0.062	0.126
Moderating variables								
ORIE	0.535	0.000***	0.504	0.000***	0.403	0.000***	-0.214	0.000***
INDIV	0.426	0.000***	0.377	0.000***	0.314	0.000***	-0.067	0.447
Firm-level controls								
FSIZE	0.413	0.000***	0.424	0.000***	0.308	0.000***	0.645	0.000***
BDUAL	-0.057	0.133	-0.068	0.097	-0.101	0.023*	0.083	0.012*
BDIV	0.116	0.003**	0.079	0.058	0.073	0.189	0.071	0.040*
BEXP	0.103	0.011*	0.122	0.005**	-0.140	0.006**	-0.108	0.005**
CCOMM	-0.004	0.918	0.002	0.955	-0.292	0.000***	-0.055	0.185
LEV	0.001	0.978	-0.007	0.848	-0.023	0.633	-0.068	0.031*
PPE	0.111	0.003**	0.133	0.001***	0.174	0.001***	-0.139	0.000***
Country-level controls								
INFL	-0.085	0.168	-0.034	0.589	-0.281	0.000***	-0.187	0.000***
CORR	-0.348	0.000***	-0.357	0.000***	-0.311	0.000***	0.006	0.936
GDP	-0.062	0.089	-0.059	0.140	-0.066	0.184	0.075	0.029*
YD	Included		Included		Included		Included	
CountryD	Included		Included		Included		Included	
Constant	-0.745	0.000***	-0.734	0.000***	0.265	0.076	0.499	0.144
Standard error	0.167		0.164		0.133		0.363	
Durbin-Watson	1.926		1.840		2.044		2.060	
F-Value	19.624***		17.959***		19.968***		36.076***	
Adjusted R^2	0.419		0.419		0.654		0.617	
Number of obs.	553		474		266		228	

Notes: This table illustrates a comparison between the estimated OLS coefficients of the main analysis for both high CG and low CG sub-samples (Model I and Model III respectively) and their counterparts but using estimated lagged structure for the same model (Model II and Model IV respectively) on the relationship between long-term executive pay and CSR. Variables are defined as follows: corporate social responsibility (*CSR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Second, as an initial step to using 2SLS regression analysis to test for omitted variables' endogeneity problems, the Durbin-Wu-Hausman (DWH) technique, following Schultz, Tan and Walsh (2010), was performed to check whether there is an endogenous association between the dependent and independent variables of this study (*LTPAY* and *CSR*). Indeed, the results of this technique showed an endogenous association between the two variables, suggesting the need to perform 2*SLS* regression analysis.

In the first stage of the 2*SLS* regression analysis, *CSR* in the left-hand side of equation (11) was replaced by *LTPAY*, where *LTPAY* became the dependent variable, to be determined by the other variables in the right-hand side of the equation. Accordingly, the first stage of the 2*SLS* regression is specified as follows:

$$LTPAY_{it} = \propto_0 + +\beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \qquad (14)$$

Where everything is defined as in Equation (11). After running Equation (14), the predicted values of *LTPAY* (*P_LTPAY*), which were obtained from this run, were used to replace the original values of *LTPAY* in the second stage of 2*SLS*. Accordingly, Equation (11) was re-estimated as follows:

$$CSR_{it} = \propto_0 + \beta_1 P\_LTPAY_{it} + \beta_2 INDIV_{it} + \beta_3 ORIE_{it} + \sum_{i=1}^{n} \beta_i \, CONTROLS_{it} + \varepsilon_{it} \qquad (15)$$

Where everything is defined as in Equation (11) except for replacing the original values of *LTPAY* with the predicted values of the same variable (*P_LTPAY*), which was obtained from running Equation (14). However, before running Equation (14), the multicollinearity between the predicted value of *P_LTPAY* and other variables on the right-hand side of the equation was checked. Pearson correlation coefficients of this analysis show that the correlation between *P_LTPAY* and other variables is generally low, suggesting the validity of using *P_LTPAY* instead of *LTPAY* in Equation (14).

Table 3.12: The relationship between long-term executive pay and CSR- a between OLS and the 2SLS comparison

Dependent	High CG			Low CG		
	Model I	Model II	Model III	Model IV	Model V	Model VI
	OLS	2SLS (1st)	2SLS (2nd)	OLS	2SLS (1st)	2SLS (2nd)
	CSR_t	$LTPAY_t$	CSR_t	CSR_t	$LTPAY_t$	CSR_t
	Coefficients	Coefficients	Coefficients	Coefficients	Coefficients	Coefficients
Independent variable						
LTPAY	0.126**	--	0.575	-0.085	--	0.007
Moderating variables						
INDIV	0.426***	-0.235***	0.515*	0.314***	0.154	0.052
ORIE	0.535***	-0.340***	0.669*	0.403***	0.081	0.135
Firm-level controls						
FSIZE	0.413***	0.445***	0.084	0.308***	0.457***	0.504***
BDUAL	-0.057	0.197***	-0.192	-0.101*	-0.034	0.000
BDIV	0.116**	0.031	0.104*	0.073	-0.121	0.173***
BEXP	0.103*	-0.084*	0.076	-0.140**	0.117	0.046
CCOMM	-0.004	0.038	-0.054	-0.292***	-0.092	0.159*
LEV	0.001	0.017	-0.008	-0.023	0.122	-0.101*
PPE	0.111**	-0.189***	0.188	0.174***	-0.202**	-0.020
Country-level controls						
INFL	-0.085***	0.029	-0.124	-0.281***	0.133	0.140**
CORR	-0.348	0.141***	-0.325*	-0.311***	0.164*	-0.260***
GDP	-0.062***	-0.009	-0.123***	-0.066***	0.051	-0.086
YD	Included	Included	Included	Included	Included	Included
CountryD	Included	Included	Included	Included	Included	Included
Constant	-0.745***	3.269	-0.742	0.265	1.277	-0.775
Standard error	0.167	0.472	0.180	0.133	0.686	0.205
Durbin-	1.926	1.804	1.700	2.044	1.765	1.749
F-Value	19.624***		20.936	19.968***	8.578***	9.819***
Adjusted R^2	0.419	0.500	0.332	0.654	0.417	0.287
Observations	553	553	553	266	266	266

Notes: This table illustrates a comparison between the estimated OLS coefficients of the main analysis for both high CG and low CG sub-samples (Model I and Model IV respectively) and their counterparts but using estimated 2SLS regression for the same model. Model II and Model III illustrate the first and second stages of 2SLS for the high CG sub-sample respectively, whereas Model V and Model VI represent the first and second stages of the Low CG sub-sample respectively. These models are on the relationship between long-term executive pay and CSR. Variables are defined as follows: corporate social responsibility (*CSR*), long-term executive pay (*LTPAY*), individualism (*INDIV*), long term orientation (*ORIE*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Table 3.12 illustrates the coefficients of both stages of the *2SLS* technique for both the high CG sub-sample (Models II and III respectively) and the low CG sub-sample (Models V and VI respectively). These are compared with the results of the main *OLS* regression analysis of both sub-samples (Models I and IV respectively). The results of the *2SLS* technique of the sub-sample of high CG firms (Model III) show a positive coefficient of *CSR* on *LTPAY* (0.575). Despite being insignificant, the direction holds a much higher magnitude when compared to the main analysis (0.126), suggesting that the positive association obtained for this sample through the main analysis is robust. This is also supported by the directions of the control variables, where *2SLS* results show the same directions for most of the control variables as those of the main analysis.

On the other hand, the results of *2SLS* regarding the sub-sample of the low CG firms show a very weak and insignificant coefficient of *CSR* on *LTPAY* (0.007). This is generally consistent, to some extent, with the results of the main analysis of this sub-sample, where the insignificancy of the coefficient holds. Collectively, the results of the *2SLS* technique suggest that the main findings obtained from the main *OLS* analyses are robust. Overall, the comparison between the results of the *OLS* technique, lagged structure and the *2SLS* technique, as presented in Tables 3.11 and 3.12, shows very similar results, indicating that the analyses do not suffer from endogeneity problems.

6.2.4.2. Alternative long-term executive pay measurement

In order to further ensure the robustness of the results of this study, an alternative measurement for long-term executive pay is used. This measurement is the ratio of long-term executive pay to total executive pay, which is also used in a great deal of prior empirical research (Ji, 2015; Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Deckop et al., 2006; McGuire et al., 2003; Desai & Dharmapala, 2006; Armstrong, Blouin & Larcker, 2012).

Table 3.13: The relationship between long-term executive pay, CSR and corporate governance- an alternative measurement

	Model I		Model II		Model III	
	Main model		High CG		Low CG	
Dependent	CSR_t		CSR_t		CSR_t	
	Coefficients	P-values	Coefficients	P-values	Coefficients	P-values
Independent variable						
LTPAY_R	-0.013	0.687	0.088	0.025*	-0.196	0.001***
Moderating variables						
INDIV	0.413	0.000***	0.331	0.000***	0.086	0.297
ORIE	0.309	0.000***	0.400	0.000***	0.148	0.052
Firm-level controls						
FSIZE	0.442	0.000***	0.411	0.000***	0.454	0.000***
BDUAL	-0.017	0.558	-0.049	0.194	-0.004	0.925
BDIV	0.181	0.000***	0.135	0.001***	0.242	0.000***
BEXP	-0.045	0.167	0.036	0.370	-0.172	0.001***
CCOMM	0.076	0.026*	-0.028	0.442	0.003	0.967
LEV	0.025	0.376	-0.007	0.850	-0.005	0.921
PPE	0.088	0.005**	0.080	0.031*	0.031	0.637
Country-level controls						
INFL	0.021	0.596	-0.074	0.248	-0.050	0.414
CORR	-0.197	0.000***	-0.209	0.000***	-0.094	0.124
GDP	-0.134	0.000***	-0.124	0.001***	-0.103	0.054
YD	Included		Included		Included	
CountryD	Included		Included		Included	
Constant	-0.718	0.000***	0.533	0.000***	-0.507	0.003**
Standard error	0.189		0.175		0.179	
Durbin-	1.960		1.858		2.021	
F-Value	24.148***		16.010***		11.325***	
Adjusted R^2	0.362		0.357		0.431	
Observations	819		553		266	

Notes: This table illustrates the estimated OLS regressions coefficients from three models testing the association between long-term executive pay and CSR engagement, measuring the long-term executive pay as a ratio to the total executive pay. Model I presents the results of this association for the whole sample. Whereas, Model II illustrates the results of this link among firms that have strong CG system and model III illustrates the results of this association among firms that have poor CG system. Variables are defined as follows: corporate social responsibility (*CSR*), long-term executive pay ratio (*LTPAY_R*), firm size (*FSIZE*), board duality (*BDUAL*), board diversity (*BDIV*), board experience (*BEXP*), compensation committee (*CCOMM*), leverage (*LEV*), property, plant and equipment (*PPE*), long term orientation (*ORIE*), individualism (*INDIV*), inflation (*INFL*), corruption (*CORR*), and GDP growth (*GDP*). Full definitions of variables used are provided in Table 3.2. In this table, ***, **and* denote correlation is significant at the .1%, 1% and 5% level.

Accordingly, Equation (11) was re-run using the ratio of long-term executive pay (*LTPAY_R*), and the results are presented in Table 3.13. Model I of this table shows that the coefficient of *CSR* on *LTPAY_R* is weak (-0.013) and statistically insignificant, which is very similar to the results obtained from using the main measure of long-term executive pay (reported in Table 3.5 Model I). This, therefore, suggests that the results of the main analysis of the association between long-term executive pay and CSR performance is robust and not sensitive to the measures of long-term executive pay.

Similarly, Equation (11) was re-run for the sub-samples of well-governed firms and poorly governed firms using *LTPAY_R* as a measure for long-term executive pay. Models II and III of Table 3.13 present the results of these two runs respectively. Consistent with the main analysis of Model II of Table 3.5, the coefficient of *CSR* on *LTPAY_R* in Model II of Table 3.13 is positive (0.088) and statistically significant (*P*-value = 0.025), supporting the results of the main analysis of the positive association between long-term executive pay and CSR. On the other hand, Model III of Table 3.13, which represents the sub-sample of poorly governed firms, shows different results from those reported earlier for the same sub-sample using the main measurement. That is, Model III of Table 3.13 shows that the coefficient of *CSR* on *LTPAY_R* is negative (-0.196) and statistically significant (*P*-value = 0.001). This result can still be explained based on agency theory. That is, long-term executive pay, which lacks the loss side, might motivate managers (especially in poorly governed firms), to engage in riskier activities and projects that are believed to directly contribute to stock prices. This might include ignoring engaging in CSR activities, which they might believe to have a less visible impact on stock prices. This result is consistent with McGuire et al. (2003), who find a negative association between long-term executive pay and corporate social performance.

Despite these slightly different results of this sub-sample, overall, the results of using this alternative measurement of long-term executive pay show generally very similar results to those obtained from the main analysis; both analyses show a significant role of corporate governance in moderating the association between long-term executive pay and CSR engagement.

7. Conclusion

This study investigates the links between long-term executive pay, CSR and financial performance, and also examines the moderating effect of corporate governance on these constructs. It expands the scope of prior literature (e.g., Hong et al., 2016; Ji, 2015; Mahoney & Thorn, 2006; Deckop et al., 2006) by examining these relationships internationally and in a new setting, that of tourism-related firms. Furthermore, it explores the moderating effect of cultural values on these constructs. This study therefore presents a number of contributions and implications. These will be discussed in this section.

7.1. Theoretical contributions

This study employs a multi-theoretical framework, taking into consideration the distinct characteristics of tourism-related firms. In particular, according to agency theory, managers are self-interested and tend to direct corporate decisions towards achieving their own benefits, without considering social norms (Fama & Jensen, 1983; Baiman, 1982; Magill & Quinzii, 2002; Mahoney & Thorne, 2005). Therefore, their engagement in CSR activities might be for personal gain. In particular, some characteristics of tourism-related firms might make managers keener to engage in this practice. For example, the high financial and business risks typically associated with this sector (Guillet & Mattila, 2010) might push managers to engage in activities for rent extraction purposes, to compensate themselves for the high risks they bear. Accordingly, boards might use executive pay as a tool for aligning managers' interests with those of shareholders. Accordingly, long-term executive pay might motivate managers to engage in CSR for firm value maximisation purposes, since this in turn will positively affect their own wealth.

By contrast, another view is that long-term executive pay might negatively affect CSR engagement (McGuire et al., 2003). This is based on the notion that long-term incentives might motivate managers to engage in high-risk projects, especially ones that managers believe will directly affect firms' profitability, therefore neglecting CSR activities (Sanders, 2001; McGuire et al., 2003). A third theoretical framework, based on stakeholder and stewardship theories, presumes that managers are good stewards for shareholders and that they do the right thing, considering the needs of shareholders and other stakeholders (Chrisman et al., 2007; Davis et al., 1997; Godos-Díez et al., 2011).

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Accordingly, managers will engage in CSR as long as it is the right thing to do for shareholders and other stakeholders, regardless of whether managers are motivated to do so. Accordingly, a weak association is expected between long-term executive pay and CSR based on this framework.

In addition, this study contributes to the extant tourism literature by examining the links between long-term executive pay, CSR and firm performance in the tourism sector. Furthermore, this study extends the prior literature of long-term executive pay and corporate social responsibility by providing new insights into the moderating effect of corporate governance and cultural values on this link.

7.2. Empirical contributions

This study contributes to the extant literature on long-term executive pay, CSR and corporate financial performance by modelling these constructs in a new setting – the tourism sector. In addition, it explores the moderating effect of corporate governance and cultural values on these links. Furthermore, this study employs an international sample, comprising 819 observations from 2010 to 2016, where most of the prior empirical research is based on single countries.

The findings of this study make at least three new contributions to the extant literature. First, this study provides evidence that in well-governed tourism-related firms there is a positive association between long-term executive pay and corporate social responsibility. This supports agency theory (Fama & Jensen, 1983; Baiman, 1982), where managers are expected to engage in CSR for private benefit, especially in such a risky sector, but where a strong corporate governance system can align their interests with those of shareholders. Therefore, linking long-term executive pay with long-term performance (in the form of share prices) will lead managers to pursue strategic activities. These might include CSR activities, if they impact on firm value and share prices. Indeed, the study finds evidence of a significant positive effect of CSR on corporate financial performance and market value among well-governed firms, which supports these findings. Second, this study provides evidence that in poorly governed tourism-related firms there is no significant association between long-term executive pay and CSR. This was explained based on agency theory: where corporate governance systems are weak, managers will

engage in CSR for private benefit. This, accordingly, weakens the association between executive pay generally and CSR. This is supported by the insignificant effect of CSR on corporate financial performance, which this study also finds. Collectively, these findings suggest that long-term executive pay can be used as an effective tool in aligning managers' interests with those of both shareholders and stakeholders.

Third, the study finds evidence of moderating effects of cultural values on the associations between long-term executive pay, CSR and corporate financial performance. The results generally show that the link between long-term executive pay and CSR is stronger in individualistic cultures, consistent with the notion that managers in these cultures need to be motivated to engage in activities for the common good. This was also reflected in the form of a stronger positive effect of CSR on firm financial performance in individualistic cultures. In addition, the association between long-term executive pay and CSR was found to be stronger in long-term orientation cultures compared with short-term orientation ones, which is consistent with managers of long-term orientation cultures focusing on the distant future. Collectively, the findings provide new evidence for the links between long-term executive pay, CSR, firm performance and corporate governance in the context of tourism-related firms.

7.3. Implications

The results of this study have a number of implications for tourism-related firms, regulators and governments. With respect to tourism-related firms, this study shows the importance of having strong corporate governance mechanisms in place, as the findings show significant differences between well-governed firms and poorly governed firms in terms of the effects of long-term executive pay on CSR, as well as the effects of CSR on corporate financial performance. The findings show a significant positive effect of corporate governance systems on CSR performance and on corporate financial performance. Given the fragility and high risks typically associated with the tourism sector, firms are encouraged to engage in CSR in order to boost their reputation in society, which might help them in times of market decline. According to the findings, strong CSR performance might be gained through having a strong corporate governance system. In return, CSR engagement positively affects firm financial performance. In addition, the reputation that

results from engaging in CSR may help firms in this risky sector to attract investment, which is generally difficult to do (Guillet & Mattila, 2010). Furthermore, the research findings show that tourism-related firms should be careful when designing executive compensation contracts, given that these contracts can be designed so as to positively affect firms' CSR and financial performance. Given the findings of the positive effect of corporate government on pursuing CSR engagement, governments and regulatory authorities are encouraged to strengthen the corporate governance environment by carefully pursuing relevant reforms. Moreover, the findings suggest that firms should consider managers' cultural values as an important factor when designing executive compensation contracts.

7.4. Limitations and future research

This research is based on one sector – the tourism sector, which has distinct characteristics that might affect the investigated relationships. Accordingly, future research is encouraged to investigate these links in other sectors in order to gain enhanced generalisation for the findings. In addition, this research employs a relatively small sample of tourism-related firms, because of the data available in the database used in this research. Accordingly, as more data becomes available, future research is encouraged to revisit these links by including more variables, such as executive characteristics. In addition, this research focuses on one component of executive pay, which is long-term executive pay. Therefore, future research is encouraged to explore the effect of other pay components on CSR and financial performance in tourism-related firms.

Concluding Chapter

1. Introduction

Stakeholders play a vital role in firms' survival. As discussed in this thesis, corporate tax avoidance and its links with managers' motivations are a crucial issue for stakeholders. Due to the lack of attention paid to understanding managers' motivations and the dynamics of stakeholders of tourism-related firms, this thesis examines critical links in this area.

The tourism sector is arguably one of the fastest growing sectors in the international economy, constituting around 10% of the world's GDP. It is distinct, with unique characteristics, such as high profitability, high levels of risk and being capital-intensive. Some of these characteristics are likely to affect the behaviour of both managers and stakeholders. For example, the high fragility of this sector and its high sensitivity to economic conditions might lead shareholders of tourism-related firms to put pressure on managers for getting high returns. This might affect managers' behaviour in some decisions, such as those associated with engaging in corporate tax avoidance and/or engaging in CSR. Despite the importance of this sector and its unique characteristics, it has not received much research attention. Further, prior research suggests that different industries need different corporate governance systems. Particularly, most tourism-related firms have different organisational structures, which tend to be flatter than other industries. However, there has been little, if any, investigation of corporate governance systems in this sector, nor their possible influence on managers' behaviour.

This thesis, therefore, has ten main objectives. First, it seeks to explore the links between CSR and corporate tax avoidance in tourism-related firms. Second, it attempts to assess whether the unique corporate governance arrangements of tourism-related firms can affect the CSR-tax link in these firms. Third, it seeks to explore the possible effects of cultural values on the CSR-tax link in these firms. Fourth, it attempts to explore the links between executive pay, especially long-term executive pay, and corporate tax avoidance in tourism-related firms. Fifth, it attempts to explore the possible effects of the unique corporate governance arrangements of tourism-related firms on the association between long-term executive pay and corporate tax avoidance. Sixth, it seeks to examine whether cultural values can affect the link between long-term executive pay and corporate tax avoidance. Seventh, it attempts to explore the links between executive pay, especially long-

term executive pay, and managers' tendency to engage in CSR activities. Eighth, it seeks to explore whether engaging in CSR in the tourism sector enhances firm financial performance. Ninth, it attempts to explore the possible effects of the corporate governance systems of tourism-related firms on the links among CSR, executive pay and firm financial performance. Finally, it seeks to investigate the effect of cultural values on the links among CSR, executive pay and firm financial performance in tourism-related firms.

Due to the absence of evidence from tourism-related firms, and the mixed results reported in other contexts for the links investigated in this thesis, the prior expectations of this thesis are various, based on a number of theoretical frameworks. The main findings of this thesis are briefly summarised below.

2. Thesis summary

2.1. Summary of paper one

The first paper investigates the association between CSR and corporate tax avoidance in tourism-related firms, and the moderating effects of corporate governance and cultural values on this link. The results suggest several conclusions. First, tourism-related firms generally do not seem to view tax payments as part of their social responsibility; the results show that firms with high CSR scores are generally associated with higher levels of corporate tax avoidance. An alternative interpretation could be that tourism-related firms view tax avoidance as part of their social responsibility, as it might help them to grow and create new jobs. Second, highly responsible firms were found to have a negative association between CSR and corporate tax avoidance, whereas less responsible firms were found to have a positive association between CSR and corporate tax avoidance, suggesting that the general positive association between CSR and corporate tax avoidance in tourism-related firms is driven by less responsible firms. This suggests that highly responsible tourism-related firms view tax payments as part of their social responsibility. By contrast, less responsible tourism-related firms seem to engage in CSR just as a form of green-washing, as they simultaneously engage in corporate tax avoidance. This might be in order to respond to the demands of both shareholders and other stakeholders at the same time.

Third, corporate governance plays a positive moderating role in the relation between CSR and corporate tax avoidance. The results show that a strong corporate

governance system strengthens the negative association between CSR and corporate tax avoidance among highly responsible firms. In addition, a strong corporate governance system weakens the positive association between CSR and corporate tax avoidance among less responsible firms. Fourth, cultural values seem to have moderating effects on the association between CSR and corporate tax avoidance. For instance, the results show that tourism-related firms based in collectivistic cultures seem to view tax payments as part of their social responsibility, whereas firms based in individualistic cultures do not. The findings of this paper are generally in line with the predictions of the developed multi-theoretical frameworks of legitimacy and stakeholder theories. These findings are also consistent with prior empirical research on the links between CSR and corporate tax avoidance (Lanis & Richardson, 2012, 2013; Watson, 2015; Jones et al., 2017; Davis et al., 2016a).

2.2. Summary of paper two

The second paper examines the link between long-term executive pay and corporate tax avoidance, and the moderating effects of corporate governance and cultural values on this link. The results of this paper lead to a number of conclusions. First, there is a positive association between long-term executive pay and corporate tax avoidance. This might be interpreted based on insights from agency theory and the optimal contracting approach, where tying executive pay to firm value might motivate managers to engage in risker activities, including corporate tax avoidance. An alternative interpretation might be based on the distinctive characteristics of tourism-related firms. That is, the seasonality and fragility of the tourism sector, and therefore the high level of risk it is exposed to, might encourage managers to engage in risker polices, including tax avoidance, in order to get compensation for the high level of risk they bear.

Second, corporate governance was found to have a positive moderating effect on the association between long-term executive pay and corporate tax avoidance. The results show no significant association between long-term executive pay and corporate tax avoidance among well-governed tourism-related firms, whereas the results show a strong positive association in poorly governed tourism-related firms, suggesting that the general positive association between long-term executive pay and corporate tax avoidance is

driven by poorly governed tourism-related firms. These findings seem to be consistent with managerial power and rent extraction theories, where managers of poorly governed firms are likely to have more power and to exploit this power in order to obtain high compensation, including long-term pay. This might lead them to engage in corporate tax avoidance in order to maximise the value of their long-term pay. On the other hand, well-governed tourism-related firms seem to attempt to avoid taking more risks, given the high risks already embedded in this sector. Therefore, they seem to try to limit managers' ability to engage in riskier strategies, including tax avoidance strategies.

Third, cultural values seem to moderate the relationship between long-term executive pay and corporate tax avoidance. The results show that the association between long-term executive pay and corporate tax avoidance is weaker in individualistic cultures compared to collectivistic ones. This seems to be in line with boards of directors in individualistic cultures possibly trying to limit managers' ability to engage in corporate tax avoidance in order to avoid their tendency to use it in extracting rents. Fourth, the characteristics of tourism-related firms seem to generally affect the associations among long-term executive pay, corporate tax avoidance and corporate governance. The findings of this paper are generally consistent with prior research (e.g., Rego & Wilson, 2012; Williams & Rao, 2006; Guay, 1999; Rajgopal & Shevlin, 2002; Attwood et al., 1998; Rego, 2003; Armstrong et al., 2015; Habib & Ljungqvist, 2005).

2.1. Summary of paper three

The third paper examines the association between long-term executive pay and CSR, and the association between CSR and firm financial performance. In addition, it explores the moderating effects of corporate governance and cultural values on these links. There are several findings in this paper. First, consistent with agency theory, the results show a positive association between long-term executive pay and corporate social responsibility among well-governed firms. This supports the notion that executives are likely to tend to engage in CSR activities for their own benefit, but having a good corporate governance system in place is able to align their interests with those of shareholders. Accordingly, managers might pursue CSR activities to enhance long-term performance if their pay is linked to long-term firm value.

Second, and based on agency and managerial power theories, the results show no significant association between long-term executive pay and CSR among poorly governed firms. This supports the notion that managers in poorly governed firms are likely to be able to direct CSR activities and executive pay arrangements for their own benefit, which weakens the association between them. Third, the results show that engaging in CSR activities enhances firm financial performance among well-governed firms, whereas the results show no significant association between CSR and firm financial performance among poorly governed firms. These results are in line with the findings of the association between long-term executive pay and CSR. Overall, these results suggest that long-term executive pay might play a crucial role in aligning executives' interests with those of both shareholders and stakeholders.

Fourth, the results show that cultural values might play a crucial role in understanding the links between long-term executive pay, CSR and firm financial performance. The results indicate that the relation between long-term executive pay and CSR is stronger in individualistic cultures, which seems to be in line with the notion that managers in individualistic countries might need to be motivated to engage in activities that enhance the value for the larger group. In addition, consistent with the results discussed above, engaging in CSR seems to lead to better firm financial performance in individualistic cultures. Also, the results show that a long-term orientation cultural value might affect the link between long-term executive pay and CSR, where the association was stronger among firms based in long-term orientation cultures. This is consistent with managers of firms based in long-term orientation cultures tend to value a long-term focus. The findings of this paper are largely in line with agency theory and generally consistent with findings of prior research (e.g., Mahoney & Thorne, 2005; Mahoney & Thorn, 2006; Ji, 2015; Deckop et al., 2006; Berrone & Gomez-Mejia, 2009; Saeidi et al., 2015; Zhu, Sun, & Leung, 2014; McWilliams & Siegel, 2011). A summary of the thesis' findings is illustrated in Table 4.1 below.

Table 14: Summary of thesis' findings

Hypotheses	Findings
Paper 1	
1: There is an association between CSR and corporate tax avoidance in tourism-related firms.	**Positive** association.
2: Corporate governance moderates the link between CSR and corporate tax avoidance in tourism-related firms.	**Positive** effect.
3: In individualistic cultures, CSR is positively associated with tax avoidance behaviour.	**Positive** association.
4: In long-term orientation cultures, CSR is negatively associated with tax avoidance behaviour.	**No differences** between **long-term** and **short-term orientation** cultures.
Paper 2	
1: There is an association between long-term executive pay and corporate tax avoidance in tourism-related firms.	**Positive** association.
2a: In well-governed tourism-related firms, there is a weak/no association between long-term executive pay and tax corporate avoidance behaviour.	**Insignificant** association.
2b: In poorly governed tourism-related firms, there is a positive association between long-term executive pay and corporate tax avoidance.	**Positive** association.
3: Individualistic/collectivistic cultural value moderates the link between long-term executive pay and corporate tax avoidance.	**Positive** association.
4: Long- verses short-term orientation cultural value moderates the link between long-term executive pay and corporate tax avoidance.	**Positive** association **in collectivistic** cultures. **Insignificant** association **in individualistic** cultures.
Paper 3	
1: There is weak/no association between long-term executive pay and CSR performance in tourism-related firms.	**Insignificant** association.
2: In well-governed tourism-related firms, there is positive association between long-term executive pay and CSR performance.	**Positive** association.
3: In poorly governed tourism-related firms, there is weak/no association between long-term executive pay and CSR performance.	**Insignificant** association.
4: In well-governed tourism-related firms, CSR activities positively affect corporate financial performance.	**Positive** association.
5: In poorly governed tourism-related firms, CSR activities negatively/do not affect corporate financial performance.	**Insignificant** association.
6: Individualistic/collectivistic cultural value moderates the link between long-term executive pay and CSR performance.	**Positive** association **in individualistic** cultures. **Insignificant** association **in collectivistic** cultures.
7: Individualistic/collectivistic cultural value moderates the link between CSR performance and corporate financial performance.	**Positive** association **in individualistic** cultures. **Insignificant** association **in collectivistic** cultures.
8: Long verses short-term orientation cultural value moderates the link between long-term executive pay and CSR performance.	**Positive** association **in long-term** orientation cultures. **Negative** association **in collectivistic** orientation cultures.
9: Long verses short-term orientation cultural value moderates the link between CSR performance and corporate financial performance.	**Positive** association **in long-term** orientation cultures. **Insignificant** association **in collectivistic** orientation cultures.

3. Thesis implications

Overall, the thesis provides empirical evidence that corporate governance plays a significant role in tourism-related firms, where well-governed firms show better performance in terms of social responsibility and firm financial performance. Given the unique characteristics of tourism-related firms and the absence of empirical evidence in this context, this thesis has a number of important implications.

First, given the evidence of the positive effect of corporate governance on the association between CSR and corporate tax avoidance in tourism-related firms, this study strongly motivates tourism-related firms to strengthen their corporate governance systems. Particularly, the negative impact of poor corporate governance, shown in poorly governed tourism-related firms, should be taken into consideration by these firms, as this may lead to them having difficulty attracting investment, especially in such a high-risk sector. In addition, evidence of the negative association between CSR and corporate tax avoidance among well-governed firms motivates tourism-related firms to consider paying taxes as part of their social responsibility. This is likely to positively affect their long-term legitimacy and their profit.

Second, the evidence that tourism-related firms based in collectivistic cultures are more likely to perceive tax payments as part of their CSR compared to those based in individualistic cultures urges tourism-related firms to consider the cultural values of their managers when designing their compensation packages. In addition, these firms are encouraged to evaluate the effects of proposed pay packages on managers' risk-taking behaviour, especially in an already risky sector. Tourism-related firms should ensure having the individuals who put the interests of the company and larger groups ahead of their own interests. This is also likely to help these firms to consider society and the environment in their operations, thus avoiding causing them harm.

Third, this study has important implications for governments. Governments, especially in countries that heavily depend on tourism, are encouraged to motivate national operators to establish branches in the main markets. This is in order to reduce dealing with multinational companies that earn high profits that might even not enter the local economy. Besides, these multinational companies are more likely to engage in corporate tax avoidance, as they have more tools with which to do so, such as transfer pricing, compared

to local operators. Therefore, reducing direct dealings with these multinational companies, in favour of local operators, is likely to increase the tax revenues of these countries. Furthermore, given the evidence of the positive association between CSR and corporate tax avoidance among less responsible and poorly governed tourism-related firms, and the unique strategies that may help tourism-related firms engage in corporate tax avoidance, governments are encouraged to strengthen their tax laws and regulations. In addition, these results might lead governments to think about replacing some direct taxes with indirect ones in the tourism sector; indirect taxes are harder to avoid.

Fourth, the results of this study generally encourage regulators and pressure groups to put more pressure on less responsible and poorly governed tourism-related firms. One example is to include tax payments in CSR initiatives in the tourism sector. This pressure can be exerted via the media, especially by stressing any discovered cases of corporate tax avoidance in this sector. This will warn other tourism-related firms to avoid engaging in this behaviour so as not to harm their reputation and legitimacy. Furthermore, given the evidence of the positive effect of corporate governance in this sector, regulators are encouraged to strengthen corporate governance guidelines in this sector, and motivate tourism-related firms to follow.

Fifth, given the evidence of the positive effect of corporate governance on the association between long-term executive pay and corporate tax avoidance, tourism-related firms should be careful in designing executive pay contracts. These contracts should not motivate managers to take high risks, as this sector already has high embedded risks. The results show that well-governed firms seem to avoid taking excessive risks, including those associated with corporate tax avoidance. Therefore, these firms are likely to view tax avoidance as undesirable behaviour and to try to prevent managers from engaging in it.

Finally, given the evidence of the positive effect of long-term executive pay together with the evidence of the positive effect of CSR on firm financial performance, tourism-related firms should perceive the design of executive pay as an important tool in shaping firm financial performance. This evidence also encourages tourism-related firms to use all possible means to motivate managers to engage in CSR, as this eventually contributes to firm financial performance. Further, engaging in CSR in such a fragile sector might promote firms' reputation and therefore help in times of market decline.

4. Thesis contributions

A review of literature shows a lack of sectorial studies that specifically consider the effects of the unique sectorial characteristics on the investigated links. In addition, despite the considerable number of studies that investigate the links among CSR, executive pay and corporate tax avoidance, most of these studies are based on a single country (most often the USA), and exclude important moderating variables like corporate governance and cultural values. Accordingly, this thesis extends prior literature by providing insights on the links between CSR, executive pay and corporate tax avoidance in a new setting, the tourism sector. Therefore, this thesis makes a number of considerable contributions to the extent literature in this area.

First, using a sample of tourism-related firms (139 firms for the period 2010-2016), this thesis provides the first empirical evidence for tourism-related firms on the associations among CSR, long-term executive pay and corporate tax avoidance. In particular, it offers detailed evidence on (i) the relation between CSR and corporate tax avoidance; (ii) the relation between long-term executive pay and corporate tax avoidance; (iii) the association between long-term executive pay and CSR; and (iv) the effect of CSR on firm financial performance. The findings provide evidence that the particular characteristics of the tourism sector seem to play a crucial role in all these links.

Second, this study is the first to explore the moderating effect of corporate governance systems of tourism-related firms on the links among CSR, long-term executive pay, corporate tax avoidance and firm financial performance. In particular, it offers detailed evidence on the effects of corporate governance on the CSR-tax avoidance link, pay-tax link, pay-CSR link and CSR-performance link.

Third, this study is the first to explore the possible effects of cultural values on the links between CSR, long-term executive pay, corporate tax avoidance and firm financial performance. In particular, it provides evidence on the effects of cultural values on the CSR-tax avoidance link, pay-tax link, CSR-pay link and CSR-performance link.

Fourth, unlike most, if not all, prior empirical literature on the links investigated in this thesis, which uses a single country as a research context, this thesis is based on an international sample of 25 countries. This might help in understanding the effects of countries' differences on the investigated links, especially in terms of cultural values. Fifth,

this study contributes to sectorial studies by providing new evidence that sectorial characteristics might be a crucial factor in determining the level of risk that firms are willing to bear, including the level of corporate tax avoidance.

Finally, this thesis develops a multi-theoretical framework in order to better understand the associations among the investigated links. Particularly, this thesis makes significant contributions to developing a multi-theoretical framework that includes insights from stakeholder theory, legitimacy theory and agency theory. It might be employed in developing hypotheses and interpreting the results on the associations between CSR, corporate tax avoidance and corporate governance.

5. Limitations and future research

The findings of this thesis attempt to fill several gaps in the literature by providing empirical evidence from tourism-related firms on a number of important links. Despite the robustness and importance of this study's findings, there are a number of limitations. Due to data limitations, the number of tourism-related firms included in the final sample is relatively small compared to the total number of tourism-related firms operating around the world. As more data becomes available, future research is encouraged to include more variables, such as executive characteristics and earnings management, in the analyses. In addition, this research employs one component of executive pay, long-term executive pay. Future research therefore is encouraged to examine the effects of other pay components on CSR and corporate tax avoidance. Further, future research might investigate the effect of each type of stock options (e.g., traditional vs. indexed) on CSR and corporate tax avoidance.

The findings of this study open avenues for future research by providing a developed theoretical framework that can be employed in developing hypotheses and interpreting the results of the associations among CSR, corporate tax avoidance and corporate governance. Further, this study opens empirical avenues for sectorial studies on the links among CSR, executive pay and corporate tax avoidance by providing evidence that sectorial characteristics might shape the relationships among these constructs. Furthermore, it motivates accounting research in the tourism sector, which is still minimal. In addition, the evidence provided by this study, in terms of the moderating variables, paves

the way for future research to investigate the effects of more firm-level and country-level characteristics on the investigated links.

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