Impact of Corporate Soial Responsibility (CSR) on Tax Avoidance with the Moderating Role of Business Strategy: Evidence from Pakistan

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Abstract

Corporate Social Responsibility (CSR) is a fascinating topic since it is an essential element of the business's strategy for increasing its worth from the perspective of investors. This study aims to examine the impact of corporate social responsibility on tax avoidance with the moderating role of business strategy in the context of Pakistan. The CSR spending ratio measures CSR, while tax avoidance is measured by GAAP ETR from 2016 to 2020. Data for this study was acquired from the Pakistan Stock Exchange (PSX), 120 listed nonfinancial firms. In this study, tax avoidance is the dependent variable, while CRS is the independent variable. Firm size, performance, leverage, dividend payout ratio, capital expenditure, and sales growth are all control variables for analyzing tax avoidance. The moderating variable in this study was business strategy, which has been utilized to assess the association between CRS and tax avoidance. Regression results of the random effect model (REM) show a significant positive relationship between the CSR spending ratio and tax payments at 10%, fixed effect model (FEM) at 5%, and generalized methods of moments (GMM) estimation at 1% level of significance respectively, indicating that firms with higher CSR spending are more likely to carry out tax payment activities. The findings also show a negative and significant (FEM and GMM at 5%, REM at 1%) relationship between business strategy and tax payment in non-financial firms listed on the PSX, indicating a positive relationship between business strategy and tax avoidance. The study examined that CSR and profitability have a positive impact on tax avoidance, whereas board size, leverage, and dividend payout ratio has an inverse relationship to tax avoidance. This study also explored that business strategy has positive moderates with the association of CRS and tax avoidance in the context of Pakistan.

Keywords: Tax Avoidance, Corporate Social Responsibility, Business Strategy, PSX.

Introduction

Corporations are thinking about developing a dynamic and proactive tax administration strategy since taxes have a crucial impact on firm strategic decisions (Anouar & Houria, 2017). Tax avoidance might be seen differently by various people (Beer et al., 2019). Different tax terms are used interchangeably, such as tax sheltering, tax administration, and tax planning or tax avoidance (Chen et al., 2010). Tax avoidance strategies not only improve cash flow but, in some situations, enhance accounting revenues. Tax avoidance attempts are

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seen as value-added activities for corporations (Higgins et al., 2015). There must be some tax avoidance for the purpose of maximizing the shareholder's wealth (Slemrod, 2016). It was therefore defined that tax avoidance tactics must become regular practices in order to avoid a decline in the company’s paid-out wealth (Annuar et al., 2014). As a result, avoidance of taxes becomes a cause of worry for citizens, governmental authorities, and regulators (Chen et al., 2010). Tax planning is used more aggressively by public-private partnerships (Motta & Martinez, 2015). Avoiding taxes is impacted and affected by a variety of things. Firm characteristics like firm size, economies of scale, Capex, and debt all have a substantial influence on tax avoidance (Noor et al., 2008).

Firms need strategic planning for business before initiating, which is prepared by managers of the company, and shakes all its actions and activities (Arieftiara et al., 2015). Based on these prepared business strategies, firms' activities would be more effective; hence, firms would be superior to their competitors. Business strategies normally fall into four categories as follows: defender, prospector analyzer, and reactor (Miles et al., 1978). Firms don’t see widening the market share but beyond it, like introducing new products, offering rebates, and many other things to survive in the market and to compete its competitors. In business strategies, one of the most important things upon which focuses is to expand the volume of income and reduction in expenses like tax expenses. Companies focused on the reduction of EBT through various strategies regarding tax (Dhamara & Violita, 2018).

Business strategy, which is used for tax avoidance used by firms is not necessarily in line with stockholders, which leads to agency theory because of the difference in wishes of the agent and the principal (Richardson et al., 2015). stated that firms used different business strategies according to circumstances (Dhamara & Violita, 2018). These business strategies, which are adopted by companies, are influenced by the decisions engaged by the front-runners (Arieftiara, 2015). This situation leads to contingency theory, which explores that there is important role of leaders is to understand the problem of the economy on time and make a decision that is better for the company’s future.

Prospectors focus on innovation, and they give importance to tax strategies, but, because of their rapid changes and zealous pursuit of new products and geographic markets, they offer comparatively more tax-planning alternatives. Due to their latest products, there is no availability of close substitutes, and heavy advertisements would provide shelter against tax (Bentley et al., 2013). The behavior of Prospectors regarding risk-taking leads to the extent that they may be involved in tax avoidance and may be more aggressive and consistent when they seek new products and regional markets. Prospectors are more assertive; on the other hand, defenders would diminish tax less aggressively (Rego & Wilson, 2012).

A firm's ethics might be based on its corporate social responsibility (CSR) to the society in which it works. On the one hand, the firm meets the demands of the general public by providing its goods, but on the other hand, its daily operations frequently cause harm and adversely impact numerous stakeholders, such as the community and the surrounding region (Fisher, 2014).

CSR is receiving recognition from academics as well as corporate executives. It has stimulated the curiosity of scholars and policymakers throughout the last three decades. It is commonly regarded as a tool for attracting investors and improving interactions with stakeholders (Dhaliwal et al., 2012). CSR discourse and research on its interconnections with other financial and economic variables have grown significantly over time (Beer et al., 2019). CSR is becoming more popular as modern businesses see it as a beneficial strategy for connecting with and strengthening their relationships with stakeholders. Businesses and scholars are persuaded to do a study on the relationship between CSR and other related variables. According to research, CSR is one of the most significant and fundamental determinants of a company’s survival and success (Hoi et al., 2013). Furthermore, engaging in CSR initiatives may help a company increase shareholder value while decreasing the possibility of financial difficulties (Godfrey, 2005).

Tax avoidance can be a tax-saving technique that minimizes expenses while increasing shareholder value (Hanlon & Heitzman, 2010; Robinson et al., 2010). Tax avoidance is linked to executive compensation, ownership structure, and business management, private sector CEO, tax planning, which involves the usage of third-party tax amenities to enhance a firm's tax tactic (Minnick & Noga, 2010; Armstrong et al., 2012). Relevant rates of taxation grounded on income, GAAP ETR, or payment in cash and Cash ETR are widely used measures to catch tax avoidance (Hanlon & Heitzman, 2010). GAAP ETR influences accounting results; Cash-ETR represents payments made and is impacted by tax deferrals rather than accruals. Because of the likelihood of yearly rate swings, cash ETR has long been a preferable measure of tax avoidance (Dyreng et al., 2008).

Tax avoidance is an instrument that is used for reduction in costs, which improves shareholders' wealth as a result (Hanlon & Heitzman, 2010). Companies that use tax avoidance methods are socially undesirable because business taxes help to pay for public services (Erle, 2008; Richardson et., 2015). As a result, a company's tax-aggressive strategies may have a negative impact on society, leading to the assumption that the corporation is socially irresponsible, thereby undermining earlier CSR achievements (Loo, 2006). CSR is expected to influence tax-cutting operations. Strategic planning affects tax avoidance, fees, and welfare of planning for taxes vary subject to the strategy category (Higgins et al., 2015).

Previous studies that looked into the association between corporate social responsibility and tax focused on established economic systems; however, there is a dearth of studies regarding this topic for emerging economies such as Pakistan, where corporate social responsibility is just now starting to receive significant attention in incorporate fields and academic circles (Watson, 2011). In the literature on CSR, most studies were conducted on CSR reporting and its inference for business outcomes (Lanis & Richardson, 2011). Views on the link between corporate social responsibility and tax avoidance, in addition to the moderating impact of business strategy, have never been addressed previously. As a result, this study was conducted to acquire knowledge of the association between corporate social responsibility with tax avoidance to understand the moderating impact of business strategy in Pakistan's rising economy.

Objectives

The following research objectives are addressed in this study.

1. To check the impact of corporate social responsibility on tax avoidance.
2. To examine the effect of firm size, leverage, dividend, Capex, growth opportunities, and profitability on tax avoidance.
3. To find out the influence of business strategies as a moderating role on the association between CSR and tax avoidance.

Scope of the Study

This study is to contribute to the literature in the following respects. First, this research makes a unique contribution by introducing business strategy as a moderator between corporate tax responsibility and tax avoidance. As a consequence, this is the first time in Pakistan that a business strategy is used as a moderator to check the association between CSR and tax avoidance. The second edition is that it expands the discussion of the connection between CSR and tax avoidance to include developing markets. Based on panel data analysis, the researcher calculates the outcomes using the generalized technique of moments (Sarwar et al., 2020). This study is useful for policymakers, tax management, and the general public who are concerned about corporate social responsibility and tax avoidance since it helps them understand the behavior and dynamics of the subject. This study adds to prior research by seeking to determine the impact of CSR and the tax-moderating effect it has on business strategy, which has not previously been explored in this context. This study can also help tax authorities estimate the potential risk of avoidance of taxes and target their future efforts, permitting companies to save important resources by determining whether CSR has a substantial relationship with tax avoidance.

Theoretical Background

CSR activities, according to Resource-Based Theory, are enhancing the company's potential to gain a competitive edge. Although both taxes and CSR are costs for the corporation, CSR delivers value and advantages to shareholders directly. The behavior of corporate managers in avoiding tax liabilities may be characterized as the first from the firm's earnings management (EM) concept. EM is a set of accounting processes (accrual earning management) or real actions (real earning management) used by leaders to accomplish specified goals for reported revenue (Scott & Scott, 2015). One type of EM is to minimize revenue (revenue reduction), with the hope that the cost of taxes would be reduced or less compared to what it should be. Managers might utilize CSR expenses to analyze tax interests relating to their business tax strategy. In practice, it can cut earnings and minimize avoidance of taxes (Watson, 2011).

A firm, based on the agency theory, may be characterized as an arrangement or contract between owners and management with the sole purpose of generating profit for the stockholders (Fama & Jensen, 1983). Nonetheless, the community's concern about environmental and social problems has grown in recent centuries; these issues have been transferred to businesses, where it is anticipated that they would engage in sustainable as well as socially responsible activities. Contrary to (1970) Friedman's thesis, the total number of enterprises involved in volunteer corporate social responsibility methods has expanded significantly in the past few years, based on the literature (Chen et al., 2017; Hoi et al., 2013; Lin et al., 2017) gaining significant interest from the scholarly community.

According to Goerke (2019), if tax avoidance behavior diminishes, the company's CSR initiatives will grow. Companies are taking precautions against the probable adverse effects of active tax avoidance practices, according to risk management theory, which will enhance CSR activity (Col & Patel, 2019). Businesses that evade taxes have lower ETRs than those that do not (Lanis & Richardson, 2011). CSR activities will minimize tax avoidance, particularly in firms that actively engage in CSR. Passive participation in CSR activities, on the other hand, does not influence tax avoidance, implying that firms can continue to avoid taxes while engaging in CSR activities (Kim & Im, 2017). Several study findings and practical studies on CSR activities and avoidance of tax expenditures provide ambiguous outcomes. According to several research, CSR initiatives can help prevent tax avoidance. Other research indicates that CSR is rising proportionally, although tax avoidance practices remain prevalent (López-González et al., 2019). Contingency components, also known as moderating variables, might potentially explain the occurrence of inconsistencies or weak correlations between factors following the scenario (Baron & Kenny, 1986).

Literature Review

CSR and Tax Avoidance

A firm, according to agency theory, may be characterized as an arrangement or contract between owners and the board of directors with the aim of generating profit for the shareholders (Fama & Jensen, 1983). Based on previous papers, there has been a significant increase in CSR and tax avoidance in recent years; nonetheless, professional academics who have experimentally researched both issues are limited, based on the studies of Lin et al.,

2017) despite the fact that they have not reached an agreement within their connection. According to the survey (Laguir et al., 2015), depending on the agency viewpoint used, the nature of the interaction might be favorable or negative. On the other hand, previous research shows that CSR and tax avoidance may coexist.

Numerous scholars, such as Hoi et al. (2013) and Laguir et al. (2015), explained agency theory method focuses on the viewpoints of stakeholders and is the initial research or topic on the relationship between tax avoidance and corporate social responsibility. They emphasized the significance of managing stakeholders in providing the firm's existence and attainment of its objectives. While businesses are avoiding taxes by adopting tax avoidance strategies, they are still committed to improving their community and ecological outcomes. Past research supports a good connection between tax-saving strategies and CSR based on this concept (Huseynov & Klamm, 2012). Nonetheless, as Lin et al. (2017) explained, a balance must be maintained between environmental, social, and financial targets.

The additional study topic argues whether taxation on corporations can only be linked to social and environmental results if they result in societal benefits. Furthermore, based on the literature (Landry et al., 2013) avoidance of taxes may have an adverse effect on the image of a business, which is one of its most important assets. In accordance with the agency theory by past literature (Landry et al., 2013), the costs related to the adoption and growth of a CSR strategy include image and political costs. Demonstrated in this regard that the tax benefits from avoiding strategy creation may be significantly lower than the expense of negative publicity that these behaviors may suggest.

CSR may boost investors' value since the adverse impacts of avoidance of taxes can be compensated by environmentally and socially conscious measures. Yet, they continue to opt to promote tax deductions and so increase their net worth. As a result, our methodology suggests an adverse link between subjects. The better the CSR achievement, the less corporate tax evasion occurs. Despite conflicting prior findings, it is clear that the relationship between corporate social responsibility and avoidance of taxes depends on inequalities of interest of shareholders and stakeholders (Lin et al., 2017). Studies propose businesses prioritize SR operations in order to maintain/create a favorable image (Godfrey, 2005). The literature mentioned above suggests that CSR has a significant relationship with tax avoidance, and the following hypotheses can be developed.

H1: CSR has a significant influence on tax avoidance in the context of Pakistan.

Business Strategy, CSR, and Tax Avoidance

Tax avoidance affects shareholder profits (Wilde & Wilson, 2018). Phillips (2003) stated that the general compensation of management benefits from tax savings. The majority of studies on tax avoidance, i.e., Anwar and Husnain (2021), have concentrated on business factors such as terms of size, capital intensity, and the degree to which offshore operations, leverage, and R&D expenses. Miles et al. (1978) suggested that there is a relationship between tax preparation and low ETR.

Based on the findings of Higgins et al. (2015) who argue that business strategy has an impact on tax avoidance, and the costs and benefits of tax preparation differ depending on the plan. Prospector-type businesses prioritize creativity and growth over cost reduction. In fact, avoiding the uncertainties and hazards involved with proactive preparation of taxes is more likely with defense. According the Hsu et al. (2016), prospectors are businesses that concentrate on development and the discovery of fresh markets.

According to resource-based theory, corporations compete with one another based on their resources and skills. We claim that gaps in CSR may be connected to company strategy using Miles et al. (1978) resource-based theory and conceptual company planning framework. It is tough to recognize that the company's building plan is independent of CSR features that

provide a competitive advantage. CSR strives to boost the company's legitimacy and image. Corporate social responsibility serves as a surprise, or a buffer, between unfavorable states (in this example, a negative incident for its renown) and the firm's image (Godfrey, 2005). Based on the preceding reasoning, it is possible to figure out that the link between corporate social responsibility and tax avoidance is undoubtedly impacted by business strategy; thus, after the above literature discussion, this study developed a hypothesis;
H2: There is a significant moderating role of business strategy in the association between CSR and tax avoidance.

Profitability and Tax Avoidance
Chen et al. (2010) suggested that organizations with higher profitability have the chance of establishing themselves in tax preparation, which can lessen their tax load. Bogoviz et al. (2019) stated that it has an adverse influence on advertising and manufacturing, reducing company competitiveness and, as a result, financial losses in terms of income and productivity. Subordinate ETRs had lesser productivity optimization but a higher influence on financial concentrations. Richardson et al. (2015) stated that firms with greater asset returns are less likely to engage in higher levels of corporate tax avoidance. Thus, after the above literature discussion, this study hypothesized that;
H3: Profitability has a significant impact on tax avoidance in the context of Pakistan.

Firm Size and TaxAvoidance
Sari et al. (2020) it was concluded that the size of a firm influences the level of taxation and is a key factor in effective administration. A firm's length is measured as the total assets of the firm. Rinaldi and Cheisviyanny (2015) stated that this may be calculated by converting total assets into a normal (natural) log. Thus, after the above literature discussion, this study hypothesized that;
H4: Firm size has a significant impact on tax avoidance in the context of Pakistan.

Leverage and Tax Avoidance
When a corporation makes investments in assets or projects using debt finance rather than capital, it indicates that the organization has excessive leverage. Lanis and Richardson (2011) additionally stated that higher leverage has the propensity to be more effective for lowering the tax burden. Furthermore, this study explored that advanced ratio corporations are less likely to be involved in tax avoidance since financing through debt provides an exemption from taxation means that leverage is connected to corporate tax avoidance. Researchers discovered that loan interest expenditures beyond a particular threshold stipulated by tax legislation are not deductible from taxes. Kurniasih & Sari (2013) stated that using higher debt to equity over a certain threshold increases the firm's tax expenses. Hence, firms with a high leverage ratio are more likely to dodge paying taxes. If the debt figure rate is more than the interest amount coming from loans, the firm's tax liability will be reduced. Thus, after the above literature discussion, this study developed a persistent;
H5: Leverage has a significant impact on tax avoidance in the context of Pakistan.

Capital Expenditure and Tax
Desai and Dharmapala (2006) used capital expenditure as an explanatory variable in their studies. The prior research has discovered the two impacts of capital spending on the ETR. When a company's capital expenditure rises, so does its GAAP ETR. It denotes that the corporation pays more taxes but has a lower ETR (Huseynov & Klamm, 2012). These shifting effects may be connected to the permanent issue of ongoing depreciation. These findings are also comparable with the findings of (Armstrong et al., 2012), who investigated

the adverse connection between newly made investments, including capital expenditure, and avoidance of taxes strategies. According to Zheng's (2017) analysis, it is essential to exclude the standard industry-adjusted capital expenditure to asset ratio from the relevant company segments. Finally, the capital spending to sale % is used to compute capital expenditure. Organizations with larger capital expenditures are free from exercise-related tax, according to a previous study that employed Capex as a controller factor (Rego & Wilson, 2012). Thus, after the above literature discussion, this study assumed as follows;
H6: Capital Expenditure has a significant impact on tax avoidance in the context of Pakistan.

Sale Growth and Tax Avoidance

The sales turnover ratio calculates the pace at which a firm should expand in order to determine its level of competition and profit possibilities. Tang and Firth (2011) highlighted the generality of a direct impact between growth ratio and tax avoidance. This study also suggested that because of the differing cost-recognized rules, rising businesses can choose to invest in assets that might contribute to tax avoidance. Furthermore, Kolay et al. (2011) discovered that developing companies may have more flexibility in their accounting practices than established businesses. According to Khurana and Moser (2009), large corporations tend to pay higher taxes, but fast-growing enterprises want to make larger tax-generating investments. Hence, based on the discussed literature, this study develops the following hypothesis.
H7: Sale Growth has a significant impact on tax avoidance in the context of Pakistan.

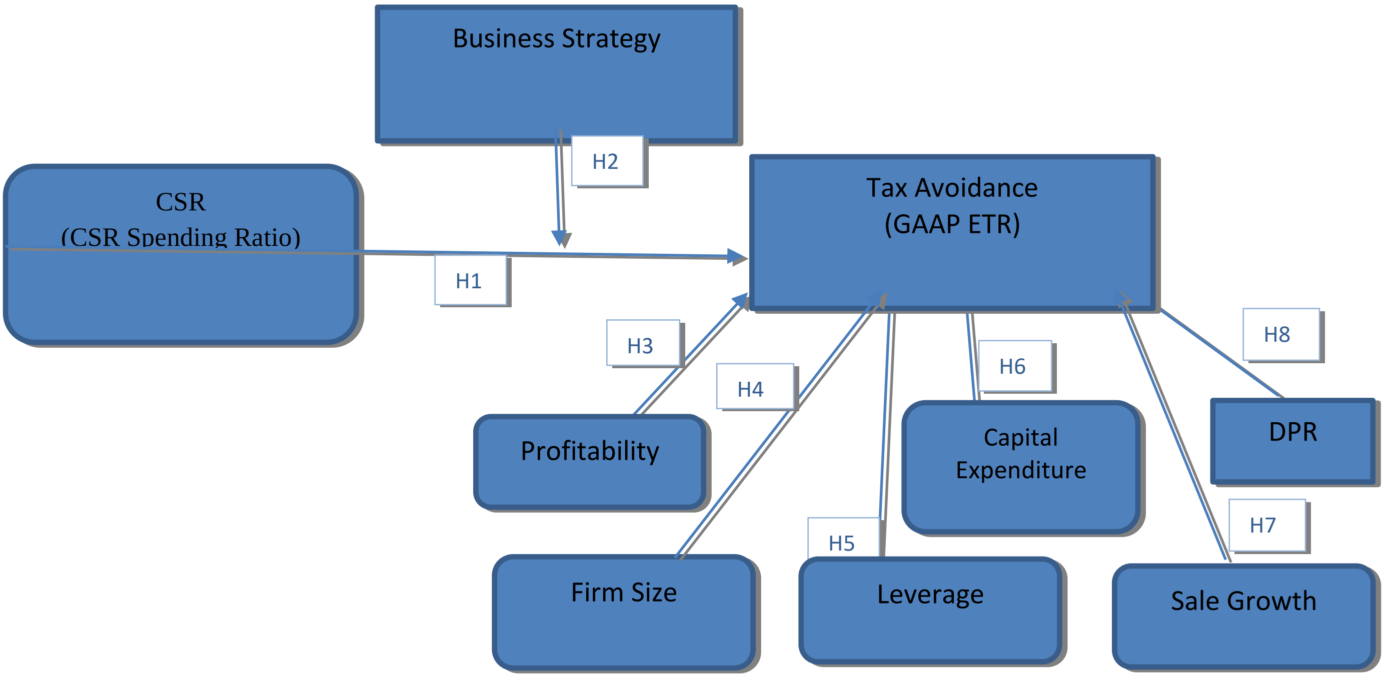
Dividend Payout and Tax Avoidance

Earlier researchers like Procianoy and Vancin (2016) revealed that tax law has a vital impact in determining the distribution of dividends. They showed that companies that pay rewards beyond the legal, statutory limit have different characteristics than those that pay the minimal limit. Furthermore, an important relationship between the distribution of dividends and tax policy. They concluded that dividends are preferable to late tax deduction benefits after analyzing the decision of the tax method of repaying the firm's tax burden strategy from the three distribution alternatives of dividends (Nossa & Nossa, 2007; Mota & Eid, 2007; Nakamura et al., 2007). Pohlmann & Iudcibus (2010) showed an important connection between the tax rate on revenue and both dividends and borrowing levels. In addition to low-profit taxes, these consequences were found for enterprises with significant debt. According to the same research (Hutagaol-Martowidjojo & Valentincic, 2019), revenue is the primary financial factor that influences a firm's policy on dividends. They defend these results by stating that earnings represent a company's true capacity to pay dividends, and taxes impact the number of dividends that should be paid. Their findings revealed that preceding year revenue, in addition to contributed capital, were key predictors of organizations' payout policies.
Nonetheless, the firm's influence on tax policy has a negligible impact. In other words, the smaller the dividend payout ratio, the greater the firm's tax. Thus, based on the above-discussed literature, this shows the following hypothesis.
H8: There is an association between the dividend payout and tax avoidance.

Theoretical Framework

Figure 1 explains the theoretical framework of this study. It shows that CSR has an association with tax avoidance. Also, business strategy has a moderating role in the relationship between CSR and tax avoidance. In this study, based on previous literature, six control variables were used: size, leverage, Dividend Payout Ratio, capital expenditure, sales growth & profitability. CSR spending ratio is used to measure CSR, whereas This study measures tax evasion using GAAP ETR.

Figure 1: Theoretical Framework of the Study



Research Methodology

Data Selection and Description

For this study, data has been taken from the database of State Bank of Pakistan (SBP) and annual report of the companies got from their websites from 2016 to 2020. The study's population consists of non-financial companies listed in Pakistan. Financial companies are not included because they have particular characteristics, have strict regulations, and have different features (El Ammari, 2021), are subject to certain rules that do not apply to any other company operating in a different industry (Bataineh, 2021), and their financial reporting rules are different from those used by other industries (Al-Qahtani & Ajina 2017; Lin et al., (2016). Data select for five years from 2016 to 2020 because recent upload financial analysis report was uploaded on the website of State Bank of Pakistan was 2016-20 of 120 listed non financial firms; due to Covid-19 or any other reason 2021 analysis was not upload on the website of state bank of Pakistan as the state bank of Pakistan issued compiled financial statement of listed companies either financial or non-financial companies in Pakistan. The financial analysis report was almost 2 years older, the list of companies whose data was available in the analysis report was compared and checked to the current list on Pakistan Stock Exchange (PSX) website and delete all those companies which were not present in current list or defaulter segment. Balanced panel data is used in the study and also delete all those companies whose data of any year was not present of any variable and for any year. When choosing the sample, a funnel technique is used.

Table 1: Sample Selection

Sector	Total Listed Firms	Sample Selected	Percentage
Textile Composite	54	22	40.74%
Automobile Assembler	11	04	36.36%
Textile Spinning	63	18	28.57%
Sugar & Allied Industries	29	15	51.72%
Food & Personal Care Products	24	12	50%
Chemical	28	11	39.29%
Cement	23	10	43.47%
Pharmaceuticals	13	08	61.54%
Paper & Board	10	04	40%
Automobile Parts and Accessories	10	05	50%
Glass and Ceramics	09	04	44.44%
Technology & Communication	15	07	46.67%
Total	289	120	41.52%

Measurement of Variables

Measurement of the variables which used in the study as followed;

In earlier studies, the most often used and acknowledged metric was the ETR such as used in the studies of (Hoi et al., 2013; Watson, 2011). GAAP-ETR used to measure tax avoidance in this study.

$$GAAP\ ETR = \frac{Total\ Tax\ Expense}{Income\ before\ Tax}$$

CSR is utilized as a variable that is independent and measured by the CSR spending ratio, which is total CSR expenditures divided by profits after tax, and the following formula is employed in the study (Ehsan et al., 2018; Pyo & Lee, 2013; Lin et al., 2009).

$$CSR\ Spending\ Ratio = \frac{Total\ CSR\ Expenditures}{Earnings\ after\ Tax}$$

Numerous research studies indicate that return on asset, as an estimate for the profitability of the firm, is related to the ETR. Prior study of Surbakti (2012) stated that when a corporation tries to avoid paying taxes, it has a good relationship with tax avoidance. Based on the prior studies of Chen et al. (2010); Rinaldi & Cheisviyanny (2015) that organizations with higher profitability have the chance of establishing themselves in tax planning, which can reduce their tax burden. Any firm's profitability is defined as its ability to create revenues. Companies with greater ETR are likely to have better ROA (profitability) (Dhamara & Violita, 2018; MengYun et al., 2021).

$$Return\ on\ assets = \frac{Net\ profit}{Total\ Asset}$$

A corporation's total assets can be used to assess its firm size. In keeping with earlier research, the size of the firm is calculated using the natural logarithm of the total assets of a business (Sarwar et al., 2018).

$$Firm\ Size = LTA = \ln\ (Total\ Assets)$$

Leverage lowers an organization's gross income while increasing the amount of taxes it pays (Wahyuni et al., 2017). This element has an impact on a firm and pushes it to carry out tax preparation (Cheng et al., 2012). The following formula for firm leverage is used in the study (Sarwar et al., 2018).

$$Leverage = \frac{Total\ Debt}{Total\ Equity}$$

As a control variable, the Capex used the ratio fo CE to sale has been used and is consistent with (Zheng, 2017; Desai & Dharmapala, 2006).

$$CER = \frac{CE}{Sale}$$

Where CE is stand by capital expenditure and CER is capital expenditure ratio.

The dividend payout ratio is determined by dividing the amount of dividends paid per share by the earnings per share (Al-Najjar, 2011). This study used the equation for the measurement of dividend as;

$$DPR = \frac{DPS}{EPS}$$

Wahyuni et al. (2017) found that sales growth rates vary from year to year. A company's increased sales volume indicates that the company's sales growth is rising. Profits earned by the corporation are expected to rise as sales increase and used the equation as;

$$SG = \frac{Final\ Sales\ Period - Initial\ Sales\ Period}{Initial\ Sales\ Period}$$

Where SG is stand by sales growth

By following Anwar and Hasnu (2016) and Watson (2011) business strategy is assessed using the three ratios listed below. The actual purpose of CGS to sales ratio to determine the extent to which the organization is on its own effectiveness, which results in manufacturing efficiency that is too much for the investors while low for defenders.

$$COGSR = \frac{CGS}{Sales}$$

Where CGS is cost of goods sold and ASGR is a periodic measure of growth that indicates the growth strategy of an organization. Anwar and Hasnu (2016) describe prospectors as having a high score, whereas defenders have a low score.

$$ASGR = \frac{Ending\ value}{Beggning\ value} - 1$$

Where ASGR is stand by annual sales growth rate.

Bentley et al. (2013) scale PPE to total assets. The ratio assesses a company's technical focus.

$$CIR = \frac{Fixed\ Assets}{Total\ Assets}$$

Where CIR is stand by capital intensity ratio.

Table 2: Measures of Strategy and their Relationship to the Miles and Snow Framework

Strategy Measure	Indicators
COGSR The firm's focus on internal effectiveness results in improved manufacturing productivity.	Prospector receives a high score, whereas Defender receives a low score.
ASGR Historical growth of the company or investment possibilities.	Prospector receives a high score, whereas Defender receives a low score.
CIR The company's dedication to technical efficiency.	Prospector has a low score, whereas Defender has a high score.

Source: Miles et al., (1978).

For the measurement of business strategy, this study used three ratio such as: COGSR, ASGR and CIR. Entire data is divided into three groups for the purpose of allotment of composite score, those firms which has largest point of ration this study allot number 3, medium point of firm at 2 number and those firms which are lowest points which are 33% allotted 1 number. After summed up a a maximum number may be 9 because if a firm has 3 number in each group whereas minimum a number may be 3 being 1 in each group. Hence this study used business strategy as dummy variable, representing 0 to defender and 1 to prospector. Each strategy type has a prospector category that is used to arrange the discrete scores along a continuum (figure 2). Prospectors are companies with a score of six to nine; other companies do not.

Figure 2: Strategy Continuum and Reactor Domain

Defenders	Prospectors
1-4	**6-9**

Reactors

Each of the independent variables in this model are calculated against Tax avoidance (GAAP ETR) (with FE, RE, and GMM). These factors examine the influence of sales growth, leverage, firm size, dividend payout ratio, capital expenditure, profitability (ROA), and CSR spending Ratio on GAAP ETR, with and without a moderating effect. For balanced panel data, three different econometric models were used: FEM, REM, and GMM.

Econometric Analysis

The following regression model estimates for this study to check hypothesis of the association between explanatory variable and regressive:

$$\text{GAAP ETR}_{i,t} = \propto + \beta 1 CSR\ Spending\ Ratio_{i,t} + \beta 2 Ctrl_{i,t} + et \quad \text{(i)}$$

$$\text{GAAP ETR}_{i,t} = \propto + \beta 1 CSR\ Spending\ Ratio_{i,t} + \beta 2 FS_{i,t} + \beta 3 LEV_{i,t} + \beta 4 DPR_{i,t} + \beta 5 CE_{i,t} + \beta 6 ROA_{i,t} + \beta 7 SG_{i,t} + et \quad \text{(ii)}$$

Where GAAP ETR represents effective tax rate, CSR represents corporate social responsibility, FS represents firm size whereas Lev represents leverage and ROA represents return on asset, CE represents capital expenditure ratio, DPR represents dividend payout ratio, and SG represents sales growth. This study estimates the following equation (ii) to check the impact of CSR on tax avoidance.

The next model (iii) is developed in this study to examine the hypothesis of the moderating impact of Business Strategy on impact of CSR and tax avoidance:

$$\text{GAAP ETR}_{i,t} = \propto + \beta 1 CSR\ Spending\ Ratio_{i,t} + \beta 2 BS_{i,t} + \beta 3 CSR\ Spending\ Ratio_{i,t} * BS_{i,t} + \beta 4 FS_{i,t} + \beta 5 LEV_{i,t} + \beta 6 DPR_{i,t} + \beta 7 CE_{i,t} + \beta 8 ROA_{i,t} + \beta 9 SG_{i,t} + et \quad \text{(iii)}$$

GAAP ETR represents the effective tax rate, CSR represents corporate social responsibility, BS represents business strategy, FS represents firm size, CSR Spending ratio*BS represents the interaction term between business strategy and CSR Spending ratio, LEV represents leverage, ROA represents return on asset, CE represents capital expenditure ratio, DPR represents dividend payout ratio, and SG represents sales growth.

Using OLS, it is likely that a lagged variable (such as leverage and the dividend payout ratio) may provide estimates that are inconsistent and biassed. This work first summarizes how these two biases impact panel data estimators by taking them into account. This study used the GMM estimators to account for these biases. This study solve possible issues resulting from the use of panel data estimator techniques and take into account the dynamics of the business policy thanks to the GMM methodology. Because a company's corporate strategy

changes over time and time-series data do give more potential information than cross-section data would, the combination of cross-section and time-series data is more profitable for non-financial enterprises. Additionally, it considers the endogeneity of regressors and firm-specific effects.
The method described by Hausman (1978) is used to choose the best model from FE and RE. We investigate the null hypothesis, according to which there is no relationship between the explanatory variable and the stochastic error term. According to Ahn and Moon (2014), Hausman's (1978) method may be used to determine how far apart the FE and RE models are from one another. A higher Hausman's statistic value results in the null hypothesis that the RE model is consistent being rejected. In order to determine how vulnerable the FE estimates are, this study additionally use the Wald test for endogenous repressor. By taking into account the dynamic nature of the corporate policy, The two-step estimate strategies of are used in this work. These techniques address autocorrelations, multi-correlations, unobservable heterogeneity, and endogeneity by using lag dependent and explanatory variables as instruments. Using GMM in first difference is preffered when we have panel data with several years and observations.

Descriptive Statistics

The table 3 results reveal that the average ETR 0.2417, with SD 1.2352. The mean value of CSR is 34.1528 and SD 14.145. The average value of ROA is 0.06823, while its SD 0.1470. The mean of size is 22.6288, with SD 1.3809. The leverage's average value 0.05663 and a SD of 0.1885, which matches an earlier study (López-González et al., 2019). The DPR has a mean of 0.04730 and SD 0.2867. Business strategy mean 8.0157 and a SD of 1.2260 (Husnain et al., 2021). Capital Expenditure has an average value of 0.03094 and a standard deviation of 0.7354.

Table 3: Summary Statistics

Variables	Minimum	Maximum	St. Deviation	Mean
ETR	-0.9260	1.3745	1.2352	0.2417
CSR	-0.0307	10.2679	14.145	34.1528
ROA	-0.1242	0.4080	0.1470	0.06823
FS	13.3154	20.5741	1.3809	22.6288
CE	0.0421	2.9061	0.7354	0.03094
LEV	0.0126	2.6705	0.1885	0.05663
DPR	0.0231	1.7804	0.2867	0.04730
SG	-0.0137	4.278	0.4906	0.05966

Correlation Results

The association between independent, dependent and control, moderating is described by the correlation matrix. Table 4 shows correlation, GAAP_ETR and CSR have a positive relationship, however, BS has a negative relationship with GAAP_ETR. GAAP_ETR is positively connected with firm profitability (ROA), CE, and SG. Firm size, DPR, and leverage are all negatively linked with GAAP_ETR, indicating that their relative directions are opposite from one another.

Table 4: Correlation

	GEtr	*Csr*	*ROA*	*FS*	*CE*	*Lev*	*DPR*	*SG*	*BS*
GEtr	1								
Csr	0.365	1							
ROA	0.014	-0.255	1						
FS	-0.025	-0.074	0.279	1					
CE	0.195	0.022	-0.306	0.239	1				
Lev	-0.153	0.175	-0.129	0.057	-0.236	1			
DPR	-0.169	0.003	0.269	0.052	-0.082	0.034	1		
SG	0.033	-0.061	0.041	-0.023	0.032	0.107	-0.052	1	
BS	-0.012	0.127	-0.432	-0.242	0.215	0.176	-0.137	0.419	1

Regression Results (REM, FEM and GMM)

Each model as mentioned in the methodology section put into three models i.e. REM, FEM and GMM and got results.

CSR and Tax Avoidance

In Pakistan, the CSR spending ratio has a significant positive influence on tax payments (GAAP ETR). The results of the REM show that there is a positive relationship between CSR spending ratio and tax payments that is significant at 10%, fixed effect model at 10%, and GMM at 5% level, indicating that firms with higher CSR spending are more likely to carry out tax payment activities. The higher the CSR investment, the higher the ETR, indicating that firms that engage in CSR activities will reduce tax avoidance in Pakistan and supporting the findings of Winarno et al., (2021) and López-González et al., (2019). Revealed that companies with higher CSR spending are more likely to engage in tax payment activities.

The researcher also incorporates control variables in this model, such as leverage, profitability (ROA), firm size, capital expenditure, dividend payout ratio, and sales growth. The findings of the control variables for leverage demonstrate that it has a negative relationship with tax payment and is significant in REM and FEM at the 5% level but in GMM at the 1% level. The coefficient, however, is small, indicating that the larger the leverage, the lower the amount of tax payment. The findings of this study are consistent with the literature, (Kharisma & Faisol 2019) suggested that when a firm has a large amount of debt, it has adequate expenditures to bear for loan payments and interest, which is sufficient as a deduction for profit on taxes imposed. When leverage falls, with fixed financial performance, a larger share of the profit is taxed, causing corporations to avoid the tax. This is also applicable when the firm has a large market share.

Through outcome data, there is a significant positive association between ROA and tax payment (GAAP ETR). Profitability is extremely significant in FEM, REM, and GMM at the 1% level, implying that more profitable companies pay more taxes. Zeng (2019) shows that companies with higher profits or resources can participate in lower levels of tax avoidance activities, which is consistent with the extremely significant positive relationship between profitability and tax payments.

Through results data, there is a significant negative association between firm size and tax payment (GAAP ETR). Firm size is extremely significant in FEM and GMM at the 1% level, whereas it is significant in REM at the 1% level. Firm size (FS) is adversely related to tax payment at the firm level. It supports the premise that huge corporations face greater political and reputational consequences when they engage in tax avoidance.

Through outcome evidence, there is a significant negative association between DPR and tax payment. DPR is extremely significant in FEM, REM, and GMM at the 1% level, supporting the findings of Sari (2017), who evaluated the relationship between tax payment and dividend policy. He discovered that the higher the tax payment, the lower the dividend payout ratio of the company. In other words, there is an adverse association between tax payments and dividend payments. Other factors, such as Capital Expenditure and Sales Growth, have insignificant coefficients (Kharisma & Faisol 2019).

Table 5 illustrates the influence of CSR on tax avoidance in Pakistan using both static and dynamic models. To get the results, three models were used; random effect model (REM), fixed effect model (FEM), and generalized methods of moments (GMM) estimation, respectively. The null assumption of the Hausman and Wald tests is that no relationship exists between the independent variable and the error terms in FEM and constant variance (homoscedasticity) in REM, respectively, whereas m2 for serial correlation (second order) in GMM estimation.

Table 5: Results of CSR and Tax Avoidance

Variables	FEM	REM	GMM
Getr (-1)	-0.272***	0.160**	0.003
	(0.105)	(0.073)	(0.192)
Csr	0.735*	0.724*	0.922**
	(0.448)	(0.386)	(0.424)
ROA	1.144***	0.573***	0.486***
	(0.282)	(0.179)	(0.182)
FS	-0.109**	-0.046***	-0.028**
	(0.054)	(0.011)	(0.013)
Lev	-0.061**	-0.042**	-0.053***
	(0.026)	(0.019)	(0.015)
CE	0.232	0.741	0.184
	(0.199)	(0.649)	(0.192)
DPR	-0.207***	-0.146***	-0.159***
	(0.059)	(0.049)	(0.055)
SG	0.102	-0.004	0.020
	(0.097)	(0.089)	(0.097)
_cons	2.239**	0.337**	0.481**
	(0.910)	(0.167)	(0.220)
Model Sig			0.000
Hausman test	0.003		
M2			0.547
Wald Test		0.000	

Note: The values included in brackets "()" represent standard errors. Asterisks values shows significance values such as * at 10%, ** at 5% while *** at 1% significance level.

Impact of CSR & Control Variables on Tax Avoidance with the Moderating Role of Business Strategy

The CSR spending ratio has a significant positive influence on tax payments in Pakistan. The results of the random effect model (REM) show that there is a significant positive relationship between the CSR spending ratio and tax payments at 10%, the fixed effect model at 5%, and GMM at 1% level, indicating that firms with higher CSR spending are more likely to carry out tax payment activities. The more the CSR investment, the higher the ETR, indicating that firms that engage in CSR activities would reduce the amount of tax avoidance in Pakistan. It validated the findings of Winarno et al. (2021) and López-González et al. (2019) that increased CSR spending is more likely to result in tax payment actions.

The findings also show a negative and significant (FEM and GMM at 5%, REM at 1%) relationship between business strategy and tax payment in non-financial firms listed on the Pakistan stock exchange, indicating a positive relationship between business strategy and tax avoidance. This remark suggests that companies that use a prospector approach prefer to avoid more taxes than others. The findings of this investigation agree with those of prior studies (Higgins et al., 2015; Hsu et al., 2016; Lopo Martinez & Ferreira, 2019; Husnain et al., 2021). This occurred because the expense of tax avoidance that prospector-type companies must bear does not impede them. This is because prospectors earn a lot of money by having a large market share and selling innovative items that can adapt to changes in consumer preferences and trends. Therefore, they have less competition (Higgins et al., 2015; Sadjiarto et al., 2020). In Pakistan, CSR on tax payment with the moderating effect of business strategy has a significant (REM, FEM, and GMM at 5% level) and positive association. Tax payments rise as CSR rises in larger corporations listed on PSX (non-financial).

The findings of the control variables for leverage demonstrate that it possesses an adverse association with tax payment and is significant in REM and FEM at the 5% level but in GMM at the 1% level. The coefficient, however, is small, indicating that the larger the leverage, the smaller the amount of tax payment. The findings of this study are consistent with the literature (Kharisma & Faisol 2019). Through outcome, there is a significant positive association between profitability and tax payment. Profitability is extremely substantial in FEM, REM, and GMM at the 1% level, showing that more profitable companies pay more taxes. The extremely substantial positive relationship between profitability and tax payment is consistent with earlier studies. Zeng (2019)argues that organizations with greater profits or resources can engage in less tax avoidance. Through results evidence, there is a significant negative association between firm size and tax payment. Firm size is extremely substantial in REM and GMM at the 1% level but only at the 10% level in FEM. Firm size (FS) is adversely related to tax payment at the firm level, which is consistent with Kim and Zhang (2016). It supports the premise that huge companies face greater political and image consequences when they engage in tax avoidance.

According to the results evidence, there is a significant negative association between DPR and tax payment. DPR is significant in FEM at 10%, REM at 1%, and GMM at 5%, supporting the findings of (Sari, 2017), who explored the relationship between tax payment and dividend policy. He discovered that the higher the tax payment, the lower the dividend payout ratio of the company. In other words, there is an association between tax payments and dividend payments. Other factors, such as capital expenditure and sales growth, have insignificant coefficients (Kharisma & Faisol 2019).

Table 6 illustrates the influence of CSR moderating the role of business strategy on Tax Avoidance with control variables using both static and dynamic models in Pakistan. To get the results, three models were used: REM, FEM, and GMM. The null assumption of the Hausman and Wald tests is that no relationship exists between the independent variable and the error terms in FEM and constant variance (homoscedasticity) in REM, respectively, whereas m2 for serial correlation (second order) in GMM estimation.

Table 6: Results of CSR and Tax Avoidance with moderating role of business strategy

Variables	FEM	REM	GMM
Getr (-1)	-0.224**	0.150**	0.092
	(0.105)	(0.073)	(0.200)
Csr	1.276**	1.859*	1.755***
	(0.544)	(1.065)	(0.459)
BS	-0.061**	-0.078***	-0.039**
	(0.031)	(0.027)	(0.020)
CsrBS	2.167**	2.522**	2.454**
	(1.094)	(1.090)	(1.025)
ROA	1.222***	0.633***	0.561***
	(0.275)	(0.180)	(0.175)
FS	-0.094*	-0.041***	-0.036***
	(0.055)	(0.011)	(0.018)
Lev	-0.055**	-0.057**	-0.056***
	(0.026)	(0.019)	(0.011)
CE	0.058	0.212	0.069
	(0.043)	(0.179)	(0.060)
DPR	-0.096*	-0.137***	-0.135**
	(0.057)	(0.052)	(0.054)
SG	0.021	0.031	0.033
	(0.113)	(0.095)	(0.104)
_cons	1.975**	0.174**	0.330***
	(0.916)	(0.075)	(0.128)
Model Sig	0.007		0.001
Hausman test			
M2			0.461
Wald Test		0.000	

Note: The values included in brackets "()" represent standard errors. Asterisks values shows significance values such as * at 10%, ** at 5% while *** at 1% significance level.

Results and Discussion

Social responsibility is a fascinating topic since it is an essential element of the business's strategy for increasing its worth from the perspective of investors. Companies declare activities to achieve recognition as ethically accountable companies in their commercial practices through raising social responsibility awareness. This study's findings indicate that the CSR spending ratio has a significant beneficial effect on tax payments, implying that organizations with larger CSR expenditures are more inclined to participate in tax payment operations. The higher the ETR, the higher the CSR investment, indicating that companies that participate in social responsibility (CSR) initiatives will reduce the level of tax evasion in Pakistan and supporting the findings of Winarno et al. (2021) and González et al. (2019) that demonstrated increased CSR spending is a greater probability to result in participation in tax payment activities.

The findings concluded that there is an inverse impact between business strategy and tax payment in non-financial businesses listed on the PSX, demonstrating a beneficial connection between business strategy and tax avoidance. Hsu et al. (2016), Lopo Martinez and Ferreira (2019) & Husnain et al. (2021)stated that prospector organizations tend to overcome more taxes than others. This occurred because the expense of tax avoidance that prospector-type organizations must bear does not impede them. In Pakistan, CSR on tax payment has a significant and favorable association with the moderating influence of business strategy. Tax payments rise as CSR rises in larger corporations listed on PSX (non-financial).

This study found that leverage has a significant negative link with tax payments. The coefficient, however, is small, indicating that the larger the leverage, the smaller the amount of tax payment (Kharisma & Faisol 2019). This study discovered a significant and positive association between profitability and tax payment. Profitability is extremely substantial, which indicates that more profitable companies pay more taxes. Tax payments have a significant negative association with firm size. Firm size (FS) is adversely related to tax payment at the firm level, which is consistent with Kim and Zhang (2016). The dividend payout ratio is significantly inversely associated with tax payments. Sari (2017) explored the relationship between taxation and dividend policy. He discovered that the higher the tax payment, the lower the dividend payout ratio of the corporation.

Conclusion

The purpose of the research was to examine the impact of corporate social responsibility on tax avoidance as a moderating role of business strategy in the context of Pakistan. The CSR spending ratio measures CSR, while GAAP ETR measures tax avoidance. From 2016 to 2020, data for this study were acquired from the Pakistan Stock Exchange's 120 listed non-financial firms. In this study, tax avoidance is the dependent variable, while corporate social responsibility is the independent variable. The study used three estimation techniques to determine the influence of corporate social responsibility on tax avoidance with the moderating role of business strategy in Pakistan. The findings revealed that CSR and profitability have a positive relationship with tax payment, whereas firm size, leverage, business strategy, and dividend payout ratio have a negative relationship with tax payment, while sales growth and capital expenditure were found to be insignificant. Empirical findings also reveal that the positive effects of CSR on tax avoidance produce the same consequences as mentioned above when paired with the moderating influence of a business's strategy (without moderation). The moderating variable in Pakistan is a business strategy, which has been utilized to assess the association between CSR and tax avoidance. In conclusion, the influence of the corporate social responsibility (CSR) spending ratio on the Generally Accepted Accounting Principles Effective Tax Rate (GAAP ETR), with business strategy acting as a moderator, reveals numerous important findings.

Firstly, the CSR spending ratio has a significant positive influence on GAAP ETR, showing that corporations that spend more resources on CSR initiatives are likely to engage in less tax avoidance. This shows that CSR programs might be utilized as a strategic tool to improve business image and stakeholder relationships, resulting in less desire to engage in aggressive tax planning. Second, the moderating role of business strategy gives further insights into the relationship. The defender strategy, which emphasizes stability and efficiency, enhances the favorable relationship between the CSR spending ratio and tax payment. Companies that use a defender approach prioritize image and tend to connect their tax practices with their CSR initiatives, leading to even lower cases of tax avoidance. Finally, the prospector approach, which emphasizes innovation and risk-taking, reduces the positive relationship between CSR spending ratio and tax payment. Prospector companies may regard tax planning as a way to support new projects or adjust to market changes while still engaging in CSR efforts to preserve their positive image. This might lead to a minor rise in tax avoidance practices when compared to firms using alternative tactics.

In conclusion, our study found that greater CSR expenditure ratios are connected with lower levels of tax avoidance. Business strategies act as moderators in this connection, with defender strategies boosting the negative significance, analyzer strategies neutralizing it, and prospector strategies somewhat weakening it. These findings highlight the importance of considering both CSR and business strategies when studying tax planning behaviors. To give a more thorough knowledge of the problem, future studies should look at additional elements affecting this relationship, such as firm size, leverage, capital expenditure, sales growth, profitability, and dividend payout ratio.

While researching the impact of corporate social responsibility (CSR) spending ratio on tax avoidance with the moderating role of business strategy (defender, analyzer, and prospector) provides valuable insights, certain limitations that may affect the generalizability and interpretation of the findings must be acknowledged. This Paper has the following limitations: First, data from 120 listed nonfinancial companies on Pakistan's stock exchange were used for five years from 2016 to 2020. Due to COVID-19, the State Bank of Pakistan did not publish fresh data for 2021. Second, because the data is available, companies that are not currently listed on any of the stock exchanges were not included in the study sample. Third, because accurate data on tax avoidance is unavailable, studies use the effective tax rate as a proxy for it. However, ETR is commonly used in the literature and is thought to be an adequate measure of tax avoidance (Rego & Wilson, 2012). However, it is debatable if behaviors included in financial achievements, such as investor commitment, are in the interest of society or merely the company's self-interest.

Future studies might look at excluding economic performance from the integrated CSR score. Furthermore, the study proposes that future researchstudies on this issue focus on recognizing the difference between appropriate and irresponsible actions in terms of their relationship to tax avoidance. The majority of current research studied irresponsible actions, and their conclusions contradict the findings of this study, which might be related to the CSR metrics utilized. Future studies might potentially narrow down the parameters of CSR to determine which CSR activities are associated with tax avoidance. Future studies should aim to solve these limitations and investigate new elements in order to create a greater understanding of the topic at hand.

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