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Environmental Tax Morale, Governance Signals, and Corporate Tax Aggressiveness

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ABSTRACT



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Purpose – This paper explores the role of civic environmental tax morale and governance signals in explaining corporate tax avoidance via managerial and organizational moral processes.


Design/methodology/approach – The work tests for direct, mediating and moderating relations within a behavioral governance model by means of structural equation modeling.

Findings – Results suggest that the strength of environmental tax morale materially declines corporate tax avoidance, mostly by the indirect methods instead of direct managerial decision. Empirical results reflect managerial tax morale, ethical tax culture and reputational risk sensitivity as core mechanisms that transform normative influence into conforming tax behavior. Governance signals tax enforcement salience, governance transparency and regulatory clarity – reinforce these moral mechanisms but their direct paths to tax avoidance are mixed. The findings also indicate that the income-shifting opportunity attenuates moral constraints by allowing firms to decouple moral intent from actual tax behavior, especially when structural flexibility is high. Taken together, the findings provide support for a multilayered governance process in which social norms and institutional signals simultaneously influence tax decisions via internalized managerial and cultural processes.

Originality/value – This contribution to tax governance literature consolidates environmental tax morale in a joint model with governance signaling and moral internalization mechanisms, thus moving beyond conventional deterrence-based accounts.

Research Implications – The findings reinforce the necessity to consider normative and behavioural elements in corporate tax research, and suggest a call for governance mechanisms that support ethical decision making beyond (reported) enforcement intensity.

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Keyword:

Environmental tax morale;
 corporate tax avoidance;
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1. Introduction

Corporate tax aggressiveness continues to be a persistent governance issue due to its displacement of public funds and potential for increased firm risk and stakeholder resistance. Conventional tax research shows that aggressive positions may be economically motivated but hard to screen out (Hanlon & Heitzman, 2010, 2022; Rego, 2003a, 2003b). Recent evidence also suggests that the characteristics of the top management and firm-level conditions influence taxes beyond mere mechanical motives, thereby supporting the behavioral nature of corporate tax planning (Baghdadi et al., 2022; Carolina et al., 2024; Yahaya et al., 2025). Meanwhile, the reputational exposure and external scrutiny discipline tax practices thanks to stakeholders including tax conduct in their broader evaluations of corporate responsibility (Gallemore, 2019; Gallemore et al., 2014; Gallemore & Jacob, 2025).

The closely related contemporary consideration here is that governments are building transparency and compliance infrastructures, as firms react with strategic governance, disclosure and cross-entity planning. Transparency schemes, including country by country reporting, have been demonstrated to increase effective tax rates for multinationals subject to such measures though the most heavy users of tax havens may be only mildly shackled (Bajgar & Janský, 2025; Tuinsma et al., 2025). Simultaneously, institutional integrity indicators e.g., anti-corruption policies are negatively related to tax avoidance while this deterrent impact is enhanced by governance attributes (Duong & Nguyen, 2025; Radhouani & Ajina, 2025; Sarhan & Cowton, 2025). These findings imply that the aggressive tax behavior of MNCs may be driven by a combination of such governance signals clarity, transparency and enforcement credibility along with the moral ethics and perceived stakeholder



implications held by senior management (Graham et al., 2014; OECD, 2017, 2022; Pomeranz & Serrato, 2025).

Yet a comprehensive theory of why equal Foucaultian governance signals lead to varying tax effects remains underdeveloped. Upper Echelons Theory Hambrick & Mason (1984) implies that the tax strategy decision is a manifestation of executives' values and cognitive structures, while Social Identity Theory Ashforth & Mael (1989) suggests that executives internalize dominant societal norms to maintain legitimacy. Research on Tax morale suggests that compliance beyond deterrence can be possible through intrinsic motivations and normative pressure (Alm & Torgler, 2006; Luttmner & Singhal, 2014). Yet research into corporate tax, however, continues to regard the moral domain in tax matters as a side issue despite well-recognised executive-level diversity in avoiding tax (Dyregang et al., 2010, 2019). This generates a missing link: governance signals might be effective by means of managerial moral processes and organizational ethical culture vs. punishments.

The tension inherent in the research is evident in the fact that the findings on this issue vary. Consequently, the present investigation assumes significant importance. In many cases, governance mechanisms and behaviour have been found to not support the control of aggressiveness, with only a few studies finding 'supporting' evidence. In contrast, there is also compelling empirical evidence indicating that reputational costs have the potential to curtail tax aggressiveness Gallemore et al. (2014), Gallemore & Jacob, (2025); executives wield substantial influence over tax outcomes (Dyregang et al., 2019); greater transparency regulations are associated with higher effective tax rates (Tuinsma et al., 2025); and integrity-based institutional practices exhibit a negative correlation with tax avoidance (Sarhan & Cowton, 2025). However, alternative perspectives have been advanced that seek to refine the conceptualisation of this relationship. For instance, some have proposed that the association between Corporate Social Responsibility (CSR) and tax avoidance is negligible or non-existent, suggesting that it is context-dependent. Additionally, transparency reforms have been suggested to exert only a moderate effect on the most aggressive companies. Furthermore, the impact of governance institutions on tax avoidance has been argued to be either repressive or facilitative, contingent upon the specific design and incentives associated with governance. This has been evidenced by the dual governance paradigm in corporate tax governance literature and meta-regression evidence, which has shown that the relationship between

Environmental, Social, and Governance (ESG) factors and tax avoidance follows an extreme behavioural relationship, rather than a general and stable relationship. This inconsistency, however, is consistent with models incorporating moral context, reputation sensitivity, and ethical culture as inputs, and identifying boundary conditions under which aggressiveness may be manifested through less visible strategies.

In the context of the present study, an investigation is conducted into the mediating effects of Managerial Tax Morality and Tax Ethics Culture in predicting Corporate Tax Aggression Intention, with regard to Environmental Tax Morality, Institutional Trust in Tax Authorities, Regulatory Clarity, Procedural Transparency, and Reputation Monitoring. These factors pertain to the moderating effect of income-shifting opportunities. Practical Implications This model also provides practical and policy implications, as tax regressivity can be influenced by the normative framework underlying managerial perceptions/representations and ethical culture see, for example, (Cooper et al., 2001; Hambrick & Mason, 1984). Consequently, anti-tax avoidance tools in emerging economies must include strategies not only to increase enforcement opportunities, but also to design transparency and to build trust. The latter should be based on norm-based governance reforms (Alm et al., 2020; Alm & Torgler, 2006, 2011; Azémar & Dharmapala, 2019). These findings have relevance on an international level, insofar as cross-local flexibility has the capacity to weaken inter-county deterrence and may result in fraudulent practices becoming entrenched in a manner that is not readily apparent (Hanlon & Heitzman, 2010, 2022; Rego, 2003a, 2003b). The structure of the remainder of this paper is delineated as follows.

The theoretical underpinnings of the proposed hypotheses, i.e. Upper Echelons Theory alongside the mechanism of internalised norms, are elucidated in Section 2, along with the rationale underpinning the conceptualisation of mediation and moderation processes within the model. The following sections detail the research design, constructs used, sampling approach, and SmartPLS 4 procedures applied to test the mediation and double moderation effects. The empirical findings, encompassing the testing of the measurement model and the estimation of structural paths with indirect effects and interactions, are reported in Section 4. The final section, Section 5, offers a conclusion in the form of a discussion of the testing and policy implications, applying them to the domain of corporate tax governance and compliance strategies, and explaining the limitations and directions for future research.

2. Critical Review

2.1 Theoretical foundation

Corporate tax avoidance is not merely an economic optimization decision driven by statutory tax rates and enforcement intensity; it is also shaped by the moral and normative environment surrounding corporate decision makers. Upper Echelons Theory posits that strategic organizational outcomes reflect the values, ethical orientations, and cognitive frames of top executives (Hambrick and Mason, 1984). Social Identity Theory further explains that managers internalize dominant societal norms to maintain legitimacy and social acceptance, including prevailing norms regarding tax compliance (Ashforth and Mael, 1989). In parallel, tax morale theory emphasizes intrinsic motivation, social norms, and trust in institutions as central drivers of compliance beyond deterrence-based mechanisms (Alm and Torgler, 2006; Luttmer and Singhal, 2014). Prior evidence documenting executive-level heterogeneity in tax outcomes further supports the relevance of managerial moral channels in corporate tax behavior (Dyregang et al., 2010).

2.2 Environmental tax morale and corporate tax behavior

The ethical appropriateness of tax payments by companies in an institutional context is determined by environmental tax ethics, which can be defined as societal norms and values in this regard. In accordance with the principles of Top-Level Theory (Hambrick & Mason, 1984), it is predicted that executives will internalise these external moral norms and reflect them in tax strategy decisions. As stated by Ashforth and Mael (1989) in the context of Social Identity Theory, managers endeavour to attain legitimacy through the alignment of corporate conduct with socially accepted norms. This phenomenon is especially salient within environmental contexts where the practice of tax avoidance is regarded with disapproval. The extant literature indicates that heightened tax morality is correlated with reduced opportunistic tax behaviour, even in the absence of formal enforcement (Alm and Torgler, 2006; Luttmer and Singhal, 2014). From an organisational perspective, a high-tax moral context is theorised to assist in the development of elevated ethical codes for management, thereby reinforcing a tax-based ethical climate that serves to curtail aggressive tax planning (Hermalin, 2001). Moreover, the present condition serves to emphasise the degree to which managers demonstrate responsiveness to reproach pertaining to their organisation's reputation. This is due to the fact that stakeholders now evaluate corporate tax behaviour in the context of overall corporate responsibility (Gallemore et al., 2014).

2.3 Governance signals and managerial moral channels

Institutional environment and governance signals influence cognitive frames as well as ethical judgment, by defining what is acceptable corporate behavior. Managers understand these signals based upon their own value sets and experience, which then influence strategic decisions (Hambrick and Mason 1984) according to Upper Echelons Theory. Environmental tax morale acts as a normative sign of the societal disapproval toward opportunistic tax behavior, thus facilitating deeply internalized moral standards for managers. In line with the social identity theory, managers strive to maintain legitimacy by conforming to prevailing social norms and therefore are more sensitive towards reputational effects, re-endorsing ethical values (Arora-Jonsson 2011; Ashforth and Mael 1989). Empirical evidence shows that high-morale contexts are linked to greater managerial opposition to aggressive tax positions (Alm and Torgler, 2006; Luttmer and Singhal, 2014; Gallemore et al., 2014) and a higher degree of concern for being evaluated by stakeholders as tax avoiders (H5a–H5c).

Outside the normative context, salient tax enforcement is a control signal for behavior that influences managerial moral pathways. Whereas deterrence theory tends to focus on enforcement as an economic constraint, a behavioral perspective suggests that visible and credible enforcement can further intensify the willingness of managers to intrinsically adhere to compliance norms by defining societal limits (). Compliance is regarded as moral and reputation obligation rather than cost-benefit when audits and penalties are more salient. Existing evidence indicates that convincing enforcement increases the perceived fairness and trust in authorities, which subsequently induces norm-abiding behaviors and deters opportunistic attitudes (Alm and Torgler, 2006; Dwenger et al., 2016). Furthermore, the visibility of enforcement increases awareness of reputational risk and thus the creation of internal controls in response (theoretical support for H6a–H6c).

Transparency in governance and visibility of regulation also serve to augment the moral channels of managerial influence by paring ambiguity and signally proscribed behaviors. A transparent tax governance and clear regulatory guidance reduce managers discretion in applying tax rules to extract opportunistic benefits, as a result may lead to conservative and ethical-tax positions (OECD, 2019). Corporate Culture Theory maintains that repeated exposure to transparent and predictable rules promotes organizational moral consensus (Hermalin, 2001). Indeed, a better disclosure environment and less sensitive corporate tax regulation are empirically documented as leading to stronger ethical cultures and

greater likelihood of nurturing reputation sanctions (Lanis & Richardson, 2015; Graham et al., 2014; Sarhan et al., 2024). These mediations imply that transparency and clarity not only have a direct effect on limiting aggressive tax behavior but also act through managerial tax morale, sensitiveness to reputational risk, and ethical tax culture, validating H7a–H7c as well as H8a–H8c.

2.4 Mediating of Managerial and Organizational Mechanisms

Corporate tax avoidance choices are finally realized via managerial discretion and, therefore, managerial tax morale constitutes a key transmission link from governance cues to tax results. In line with the Upper Echelons Theory, senior executives' ethical values and moral beliefs are relevant for a firm's decisions to engage in aggressive tax planning activities (Hambrick and Mason, 1984). They are more likely to reject legal but ethically questionable tax strategies, reducing corporate tax avoidance (Dyregang et al., 2010; Graham et al., 2014). There is empirical evidence to suggest that specific managers have persistent influences on the tax outcome of the firm, and even after controlling for firm characteristics, this suggests the significance of managerial level processes (Hanlon and Heitzman, 2010). Thus, the stronger environmental tax morale and governance signals predict indirectly through managerial tax morale, lending support to H9, H12a, H13a, H14a and H15a.

In addition to personal morality, reputational risk aversion serves as a central organizational process through which external governance signals are connected with tax conduct. Firms are more and more exposed to the watch of investors, media and civil society in relation to their tax behavior hence putting reputational costs as a limiting force on aggressive tax planning (Gallemore et al., 2014; Lanis et al., 2019). When tax office fears that tax avoidance is likely to induce stakeholder outrage, managers are more likely to take conservative defensive positions concerning tax. To be sure, past research finds that the reputational exposure mitigates tax aggressiveness, especially in settings of transparency and enforcement visibility (Graham et al., 2014; Austin and Wilson, 2017). Therefore, environmental tax morale and governance signals (e.g. enforcement salience and transparency) are expected to increase the reputational sensitiveness reducing tax avoidance through by that enhancing reputational sensitivity can decrease tax avoidance, which offers theoretical support for H10, H12b, H13b, H14b and H15b.

At the organizational level, ethical tax culture is represented as common norms and unwritten rules which influence tax decision making in a way that goes

beyond formal incentives. According to Corporate Culture Theory the internalized norms form the behavior by showing which kind of actions are acceptable also define what: in the organization (Hermalin, 2001). Firms with strong values will be less likely to support aggressive tax results and more likely to formalize procedures that inhibit opportunistic actions (Graham et al., 2022). Empirically, tax governance models based on integrity and commitment toward the community are among various constructs negatively related to tax aggressiveness (Lanis and Richardson, 2015; Sarhan et al., 2024). Therefore, we predict that environmental tax morale and governance signals indirectly affect corporate tax avoidance via ethical tax culture, which is consistent with H11, H12c, H13c, H14c and H15c.

2.5 Moderating Role of Income-Shifting Opportunity

Income-shifting opportunity is an institutional boundary condition which may modify the transformation of social and governance forces to corporate tax behavior. If high environmental tax morale and managerial tax morale are expected to contain aggressive tax planning, firms with more income-shifting opportunities among complex groups, under transfer pricing or during the course of cross-border activities may simply shift such aggressiveness towards less visible profit leeching rather than abandon it altogether. In keeping with Upper Echelons Theory, such managers adjust ethical preferences to the available strategic choice set and thereby diminish the deterrent influence of external moral norms when avoidance from blame can be hidden (Hambrick and Mason 1984). Previous studies demonstrate that the ability to shift income increases tax planning aggressiveness and moderates governance effects (Rego, 2003; Dyregang et al., 2010; Klassen et al., 2017). However, when the mobility of moving opportunities is less restricted, the moral 4Contrarily, under greater limitations over shifting opportunities, managerial moral restraint becomes more binding and subsequently enhances the negative relationship between managerial tax morale and corporate tax avoidance.

2.6 Research model framework

This study proposes an integrated behavioral-institutional framework explaining corporate tax avoidance through social norms, governance signals, and managerial moral channels. Environmental tax morale, enforcement salience, governance transparency, and regulatory clarity are expected to shape corporate tax behavior indirectly by influencing managerial tax morale, reputational risk sensitivity, and ethical tax culture. Consistent with Upper Echelons Theory and Social Identity Theory, executive-level moral orientations serve

as key transmission mechanisms translating external norms into organizational outcomes. The framework further incorporates income-shifting opportunity as a boundary condition that alters the effectiveness of moral

constraints. The proposed model allows simultaneous testing of direct, mediating, and moderating relationships using SmartPLS 4.

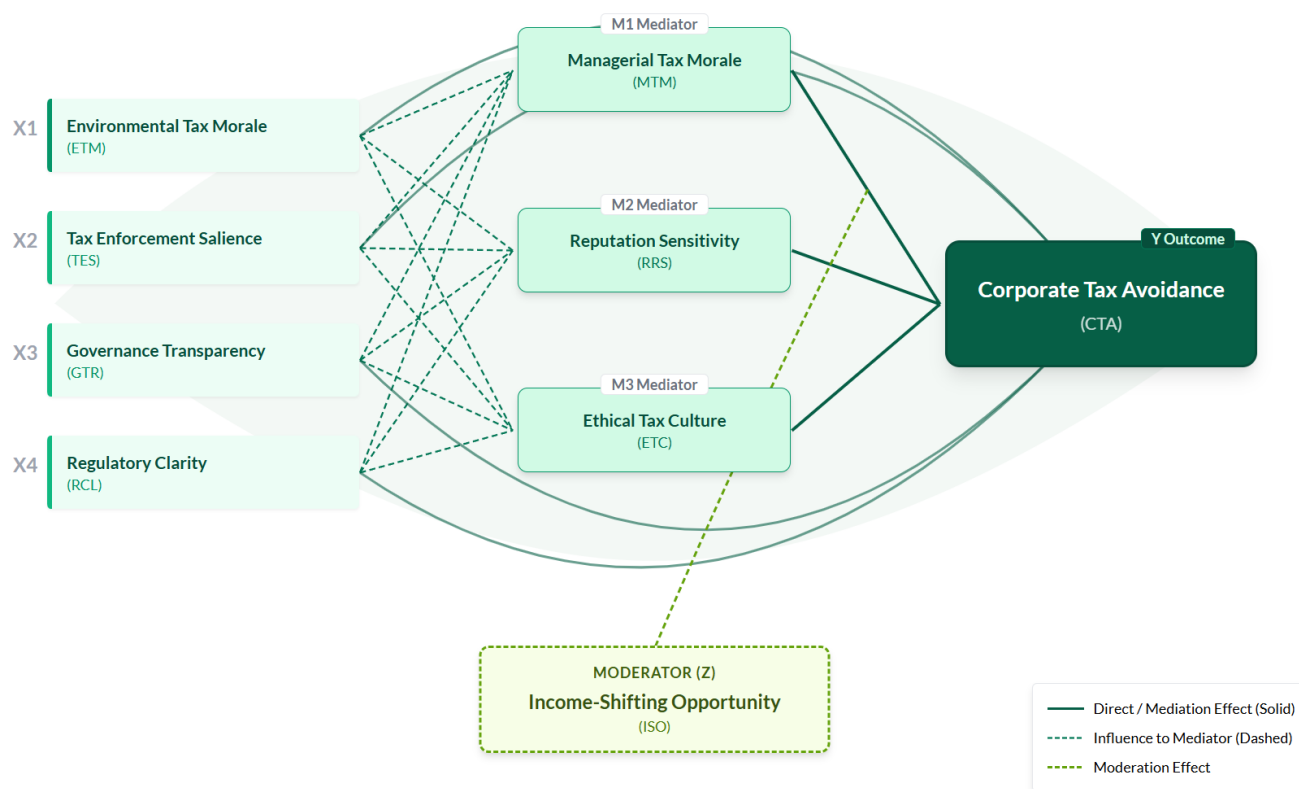


Figure 1. Nature Inspired Model of Corporate Tax Avoidance

3. Methods innovation

3.1 Research design

Our research is guided by a quantitative explanatory design, with which the influence of governance signals on corporate tax avoidance through managerial and organization moral channels is explored. In line with Upper Echelons Theory (Hambrick and Mason, 1984), the model assumes that firms' embeddedness itself -i.e., its top management team's values and perceptions- will mediate in translating institutional signals into strategic tax choices. A cross-sectional survey-based analysis is employed to pick up executive perceptions of tax morale, enforcement salience, governance transparency and regulatory clarity, as (by definition) latent constructs grounded in behaviour. The studies' design is based on both multiple mediation and moderation from norm internalization and boundary condition logic that are further influenced by behavior tax and governance literature (Alm and Torgler, 2006; Luttmer and Singhal,

2014). PLS-SEM is employed to estimate structural paths and can handle complicated models, formative indicators, predictive constructs, and non-normal data distributions (Hair et al., 2022).

3.2 Research object and sample

The empirical target of the research is company decision-makers who are active in tax decision-making - such as a tax manager, chief financial officers, finance directors and high-ranking accounting executives. The resulting sample consists of 250 respondents and includes firms in various industries, sizes, and structures that provide sufficient heterogeneity to test the governance and moral mechanisms. This sample size is adequate for more complex PLS-SEM models with multiple mediators and moderators (Hair et al., 2022). Eligibility of respondents was limited with respect to their degree of involvement in corporate tax planning for construct validity. Extensive details about the population, in terms of rank, years of experience, firm

size, industry and structural tax considerations are presented in Appendix A, which presents a fuller description of the sample profile that was used for estimation.

3.3 Variable instruments

All constructs are operationalized by multi-item reflective measures on a five-point Likert scale between 1 (strongly disagree) and 5 (strongly agree). Measurement items are mainly drawn from the recent Q1 peer-reviewed thereof studies on tax morale, governance and corporate tax conduct, to guarantee content validity and comparability. 2 Environmental tax morale, tax enforcement salience, governance transparency, and regulatory clarity constitute the external governance signals, while managerial tax morale, reputational risk sensitivity and ethical culture with respect to taxes are examples of internal moral mechanisms. Corporate tax avoidance and income-shifting opportunities are the product of strategic results and boundary conditions, respectively. The instrument is designed to reflect behavioural realism and be executively relevant as in previous corporate tax research (Graham et al., 2014; Lanis et al., 2019; Graham et al., 2022). The full list of variables, dimensions, and indicators and where we gather the data from is shown in Appendix B.

3.4 Data analysis

Using a two-stage PLS-SEM process, data analysis is performed with SmartPLS 4. First the measurement model is assessed in terms of outer loading, composite reliability, average variance extracted(AVE) and discriminant validity based on HTMT criteria. Second, the quality of the structural model is evaluated via path coefficients, determination coefficient (R²), effect sizes (f²) and predictive relevance (Q²). Testing of direct, indirect (mediation), and interaction (moderation) effects is conducted by using 5,000 bootstraps. This model is a complex behavioral because it has multiple mediators, and interact terms which makes more appropriate PLS-SEM than CB-SEM (Hair et al., 2022) given that there is an interest in the theory extension and prediction rather parameter efficiency.

4. Results and Discussion

4.1 Descriptive statistics and sample profile

The Indonesian executive sample employed for SmartPLS estimation is described in Table 1. Respondents are professional decision-takers (average experience 7.62 years; minimum 5 years), enabling informed judgments of signals from governance and tax strategy. The age distribution of respondents is in line with Upper Echelons predictions indicating mid- to senior-level managers (mean 42.88; SD 6.85). Educational level is high with the vast majority having a Master's degree (34.4% for MBA 24.4% for certifications), suggesting reasonable technical skill to assess enforcement salience, transparency and regulatory clarity. Firm size coverage is heterogeneous and more than one-half of the observations apply to big or very big firms (54.4%) for whom formal tax governance, reputational exposure, and income-shifting opportunities are more relevant. In sum, Table 1 suggests that the sample comprises an Indonesian managerial population suitable for examining moral-channel mechanisms within corporate tax behavior.

As Table 2 shows, the Indonesian sample is geared towards positions with significant impact on tax planning and governance dominated by Tax Managers (26.0%) and senior financial management (CFO 16.0%; Finance Director 12.4%; VP Finance 10.0%). This construct validity is supported because perceptions of the salience and transparency of tax enforcement and regulatory clarity are realised by actors operating within compliance systems and reporting strategies. Industry coverage is varied, with two sectors with high exposure to supply-chain complexity—manufacturing (20.8%) and consumer goods (16.4%)—as well as added context in compliance and reputation from technology and financial services. The size distribution is biased towards large companies (54.4% are small/very small) which is methodologically suitable since both the ethical tax culture and reputational risk aversion are more likely to be entrenched and one subsidiary can shift income to another within complex group structures.

Table 1 Descriptive Statistics of Respondents and Firms

Category	Measure	Value
Respondents (n = 250)	Age (years)	Mean = 42.88; SD = 6.85; Min = 30; Max = 60
	Experience (years)	Mean = 7.62; SD = 3.83; Min = 5.00; Max = 20.30
	Gender	Male = 60.0%; Female = 40.0%
Education	Bachelor	18.80%



Firm size	Master	34.40%
	MBA	24.40%
	Doctorate	4.80%
	Professional Certification	17.60%
	Small (<\$50M)	16.00%
	Medium (\$50M-\$500M)	29.60%
	Large (\$500M-\$5B)	35.20%
Country context	Very Large (>\$5B)	19.20%
	Setting	Indonesia (emerging economy context)

Table 2. Distribution of Corporate Roles, Industries, and Firm Sizes

Dimension	Category	%	
Corporate role	Tax Manager	26	
	Chief Financial Officer (CFO)	16	
	Finance Director	12.4	
	Head of Tax	11.2	
	Senior Accounting Executive	10.8	
	Controller	10	
	VP Finance	10	
	Tax Director	3.6	
	Industry	Manufacturing	20.8
		Consumer Goods	16.4
Technology/IT		14.4	
Financial Services		12.8	
Energy/Utilities		12	
Healthcare		10.8	
Transportation/Logistics		7.2	
Firm size	Real Estate	5.6	
	Small (<\$50M)	16	
	Medium (\$50M-\$500M)	29.6	
	Large (\$500M-\$5B)	35.2	
	Very Large (>\$5B)	19.2	

4.2 Measurement model assessment

As shown in Table 3, all indicators in Indonesia show a strong external load exceeding the threshold of 0.70 (lex reliability criterion). The CTA measurement range is between 0.711 and 0.800, indicating that tax aggressiveness intentions are well measured throughout the period. The highest load for ETM5 (0.844) indicates that moral cues to comply with norms are important for Indonesian managers, with ETM having moderate loads (0.781–0.844). The strong loads (≥ 0.760) of GTR and TES also indicate a clear perception of governance signals. A pair of variables show nearly negligible values, with two of them below 0.70, namely ISO 1 (0.691) and ISO5 (0.593). This indicates that not all income shifting dimensions are equally relevant among Indonesian companies within our sample scope. Although the cross-loadings are higher on the intended constructs on the respective scale items, they still help support the IDV at the individual item level.

Table 4 Demonstrates strong internal consistency and convergent validity for all constructs. The Cronbach’s alpha reliability coefficients are in the range of 0.787 (ISO) to 0.873 (TES), surpassing the recommended level, which confirms that factor constructs can be considered as reliable. Consistently high composite reliability values (ρ_C) are key for PLS-SEM when advanced mediation and moderation are involved. All constructs have an AVE above 0.50, while ETM (0.645), ETC (0.635) and TES (0.664) are particularly high in terms of convergent validity. It suggests that moral environment, ethical culture, and enforcement saliency are represented well by their indicators in Indonesia. Even with its lowest AVE (0.538) in the sample, ISO is still acceptable and therefore suitable to be used as a moderating variable rather than core/primary explanatory concept.

The evidence presented in Table 5 shows good discriminant validity, with all HTMTs well below 0.85 in this most conservative test. The largest Heterotrait-Monotrait HTMT ratios were found between



conceptually similar constructs, such as Governance Transparency-Managerial Tax Morale (0.528) and Tax Enforcement Interest-Reputational Risk Sensitivity (0.517). This means that they are similar in theory, but not in terms of empirical overlap. Notably, HTMT estimates for low corporate tax avoidance (e.g., CTA-ETM = 0.176; CTA-RCL = 0.074) indicate the uniqueness of tax avoidance related to ethical considerations and

governance signals. It is important to make this distinction when testing indirect effects, as it ensures that the decline in tax avoidance is not solely due to mechanical overlap, but is the result of effective managerial and organisational processes. The measurement model to be used in the subsequent structural and mediation analyses is generally confirmed by Table 5.

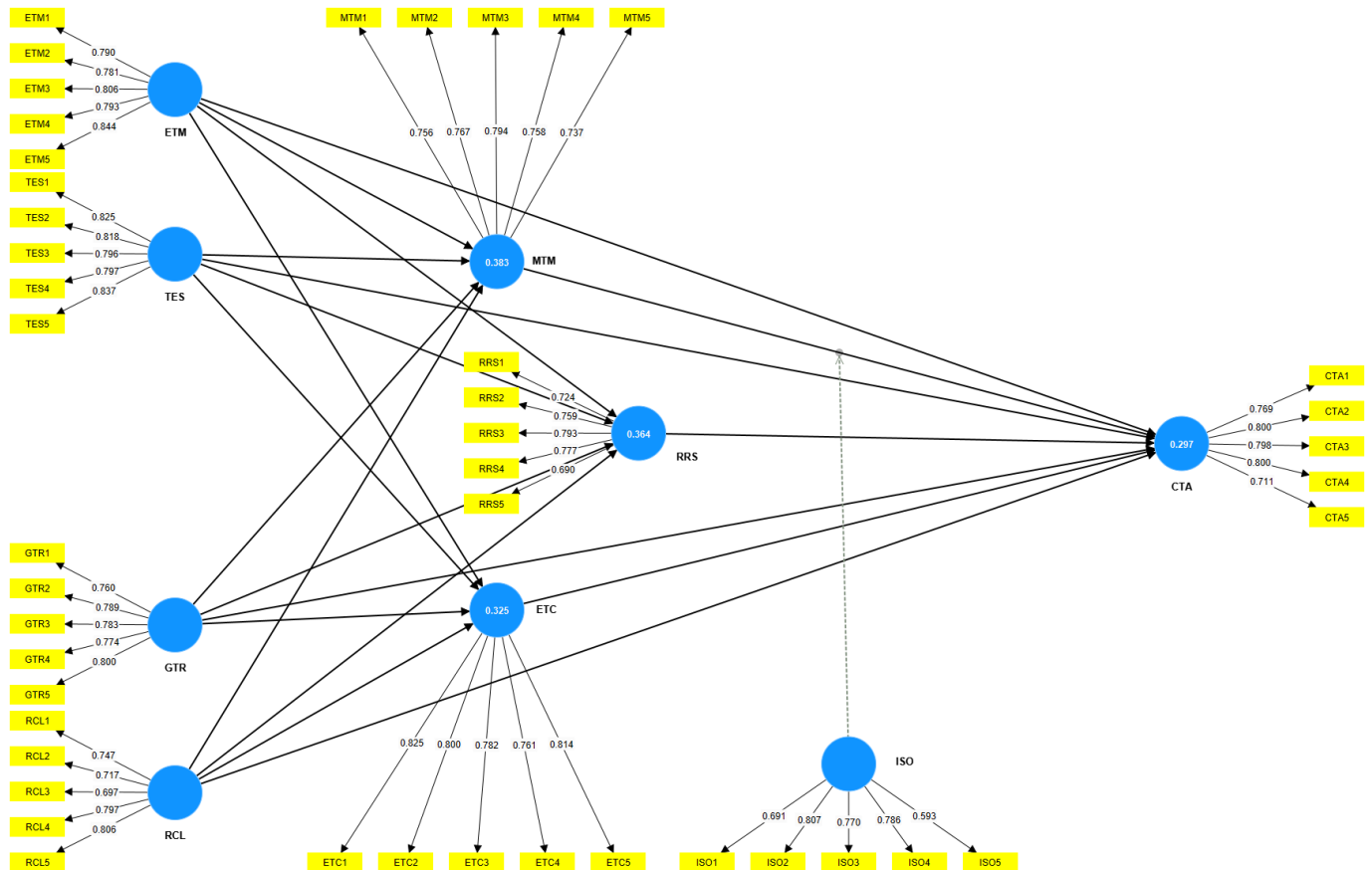


Figure 2. Measurement Model (Outer Model)

Table 3 Indicator Loadings and Cross-Loadings

Construct	Indicator	Loading
CTA	CTA1	0.769
	CTA2	0.8
	CTA3	0.798
	CTA4	0.8
	CTA5	0.711
ETC	ETC1	0.825
	ETC2	0.8
	ETC3	0.782
	ETC4	0.761
	ETC5	0.814
ETM	ETM1	0.79
	ETM2	0.781
	ETM3	0.806
	ETM4	0.793

Construct	Indicator	Loading
GTR	ETM5	0.844
	GTR1	0.76
	GTR2	0.789
	GTR3	0.783
	GTR4	0.774
ISO	GTR5	0.8
	ISO1	0.691
	ISO2	0.807
	ISO3	0.77
	ISO4	0.786
MTM	ISO5	0.593
	MTM1	0.756
	MTM2	0.767
	MTM3	0.794
	MTM4	0.758
RCL	MTM5	0.737
	RCL1	0.747
	RCL2	0.717
	RCL3	0.697
	RCL4	0.797
RRS	RCL5	0.806
	RRS1	0.724
	RRS2	0.759
	RRS3	0.793
	RRS4	0.777
TES	RRS5	0.69
	TES1	0.825
	TES2	0.818
	TES3	0.796
	TES4	0.797
	TES5	0.837

Table 4. Construct reliability and convergent validity

Construct	Cronbach's α	rho_A	CR (rho_C)	AVE
CTA	0.835	0.84	0.883	0.603
ETC	0.856	0.857	0.897	0.635
ETM	0.863	0.872	0.901	0.645
GTR	0.84	0.841	0.887	0.61
ISO	0.787	0.818	0.852	0.538
MTM	0.82	0.823	0.874	0.581
RCL	0.81	0.817	0.868	0.568
RRS	0.804	0.81	0.865	0.562
TES	0.873	0.874	0.908	0.664

Table 5 . HTMT

	CTA	ETC	ETM	GTR	ISO	MTM	RCL	RRS	TES
CTA	—								
ETC	0.329	—							
ETM	0.176	0.368	—						
GTR	0.255	0.517	0.331	—					
ISO	0.263	0.097	0.203	0.254	—				
MTM	0.397	0.236	0.488	0.528	0.212	—			
RCL	0.074	0.352	0.207	0.223	0.125	0.446	—		
RRS	0.26	0.306	0.385	0.42	0.121	0.303	0.47	—	



TES	0.175	0.422	0.194	0.282	0.109	0.396	0.17	0.517	—
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Table 6. VIF value

Path	VIF
ETC > CTA	1.619
ETM > CTA	1.436
GTR > CTA	1.676
ISO > CTA	1.076
MTM > CTA	1.796
RCL > CTA	1.456
RRS > CTA	1.677
TES > CTA	1.55
ISO × MTM > CTA	1.025
ETM > ETC / MTM / RRS	1.12
GTR > ETC / MTM / RRS	1.154
RCL > ETC / MTM / RRS	1.062
TES > ETC / MTM / RRS	1.082

Table 7. Coefficient of determination (R^2) and predictive relevance (Q^2)

Endogenous Construct	R^2	Adjusted R^2	Q^2 (Redundancy)
Corporate Tax Avoidance (CTA)	0.297	0.27	0.166
Ethical Tax Culture (ETC)	0.325	0.314	0.197
Managerial Tax Morale (MTM)	0.383	0.373	0.217
Reputational Risk Sensitivity (RRS)	0.364	0.354	0.194

4.3 Structural model evaluation

From Table 6 it can be seen that multicollinearity is not a problem in the Indonesian structural model. All VIFs are well below the liberal threshold of 3.0, and much lower than the more stringent cut-off of 5.0 sometimes employed in PLS-SEM. The maximal VIF is for MTM > CTA (1.796), still well below the critical value. Notably, the governance predictors (ETM, GTR, RCL, and TES) have uniform low VIF values (≈ 1.06 – 1.68) explaining both mediators and outcome. The interaction (ISO × MTM) has also a pretty small VIF value (1.025), indicating that there is not any bias for the collinearity when estimating moderation. Altogether, the results in Table 6 support the argument that there is not excessive overlapping between explanatory information when interpreting the estimated path coefficients.

With regard to the structural model's (Table 7) capacity to explain and predict, it successfully explains 29.7% of CTA, which is noteworthy for behavioural tax literature, especially in the context of developing countries. Managerial tax morale ($R^2 = 0.383$) and reputational risk sensitivity ($R^2 = 0.364$) were found to be the most explanatory factors, indicating that environmental tax morale and governance signals significantly impact managerial moral channels in Indonesia. All endogenous constructs demonstrate

excellent predictive performance in replication, with Q^2 values greater than zero (0.166–0.217). MTM is characterised by the highest Q^2 value. Q^2 is 0.217. MTM can therefore be considered the main mediator. The moral-governance model is supported by the findings of Table 7, which show that it can adequately explain why companies avoid paying taxes.

4.4 Hypothesis direct effects

The Indonesian data in Table 8 shows a clear pattern: moral and organisational mechanisms have a greater impact than direct environmental signals. The findings show that Environmental Tax Morality (ETM) does not directly influence tax avoidance ($\beta = 0.089$, $p = 0.168$), and Governance Transparency ($\beta = 0.030$, $p = 0.687$) also has no direct preventive effect, indicating that there is no clear relationship between the two. On the other hand, Managerial Tax Morality ($\beta = -0.435$) and Ethical Tax Culture ($\beta = -0.303$) have a strong negative effect on CTA, indicating that people tend not to avoid taxes because of their own views on what is right and wrong, rather than because of what others think. Reputational risk sensitivity also significantly reduces CTA, with a β value of -0.225 . The presence of income shifting opportunities causes an increase in avoidance behaviour ($\beta = 0.266$). Furthermore, the interaction between ISO and MTM is marginally significant, indicating that when there are



more options available, individuals may be less inclined to exercise moral self-control. This pattern supports the full mediation logic.

4.5 Mediation and moderation result

Table 9 presents strong evidence that governance, and moral signals indirectly reduced corporate tax avoidance through managerial and organizational (i.e., structural) mechanisms in Indonesia. All 12 specific indirect effects are statistically significant ($p \leq 0.036$), indicating that ETC, MTM, and RRS share in the transmission of the influence of ETM, GTR, RCL and TES to CTA. The most important indirect pathway remains the one through Managerial Tax Morale (e.g., $GTR > MTM > CTA = -0.120$; $ETM > MTM > CTA = -0.114$) emphasizing that the relationship of top officers with intrinsic ethics is the strongest mediator. Moreover, Ethical Tax Culture has a significant although minimal indirect effect (e.g., $GTR > ETC > CTA = -0.091$). Second, reputational sensitivity has smaller but discernible effects (e.g., $GTR > RRS > CTA = -0.039$). Such effects signal multi-channel mediation and thus endorse the norm-internalization logic of our model.

Table 10 shows that there is a large and significant indirect effect of all external governance signals on corporate tax avoidance in Indonesia. The highest global mediating effect is shown by Governance Transparency ($\beta = -0.250$), followed by Tax Enforcement Significance ($\beta = -0.230$), Regulatory Clarity ($\beta = -0.219$), and Environmental Tax Morality ($\beta = -0.202$). The findings indicate that size and consistency are important factors ($p = 0.000$), especially in creating internal moral channels rather than directly restricting tax behaviour. These results add to previous findings on direct effects, where ETM and GTR are not significant in their direct relationship with CTA. This suggests that both predictors only have indirect effects. The fundamental contribution of this model is further supported by Table 10. The reduction in tax avoidance primarily through managerial morality, ethical culture, and reputation sensitivity is achieved through institutional signals and governance.

As shown in Table 11, the impact of income shifting opportunities on the mediating role between CTA and MTM has a positive effect, but can only be concluded to have marginal significance ($\beta = .095$; $p < .079$). The study findings show a negative direct effect of MTM on CTA ($\beta = -0.435$). This, in turn, suggests that increased opportunities for income shifting will weaken the constraining role of MTM on managerial tax morality. In other words, the high moral standards of Indonesian leaders on December 22 are the cause. There are several alternative options for income shifting (complexity and transfer pricing discretion groups) that all prove these high moral standards. It has been determined that these high moral standards determine how effective tax avoidance behavior is. Although the moderation did not reach the 5% significance level, it is consistent with the logic generated from the boundary condition analysis. This suggests that structural flexibility can shift aggressive strategies to less dangerous parameter regions. This finding supports the assumption that ISO is a contextually relevant constraint, albeit statistically weak.

As shown in Table 12, the conditional effects indicated by the interaction terms suggest that Managerial Tax Morality has a negative influence on Corporate Tax Avoidance, especially in contexts where income diversion opportunities are limited. Conversely, when income shifting opportunities are more abundant, the influence of Managerial Tax Morality on Corporate Tax Avoidance becomes less prominent. The gradient structure discussed is also consistent with the positive β value (0.095) listed in Table 11, which indicates that access goes beyond mere ethics. In practice, for Indonesian companies, the mismatch between tax governance and management perceptions may also have the opposite effect, namely inhibiting aggressive actions. However, inter-company differences such as inter-entity mobility and the discretion afforded by transfer pricing may still encourage tax avoidance through alternative means. Therefore, it can be concluded that Table 12 is consistent with the explanation of boundary conditions.

Table 8. Direct path coefficients and significance levels

Path	β	t-value	p-value	Result
ETC > CTA	-0.303	4.493	0.000	Significant
ETM > CTA	0.089	1.38	0.168	Not Significant
GTR > CTA	0.03	0.403	0.687	Not Significant
ISO > CTA	0.266	4.621	0.000	Significant
MTM > CTA	-0.435	6.054	0.000	Significant
RCL > CTA	0.231	3.651	0.000	Significant
RRS > CTA	-0.225	3.346	0.001	Significant



Path	β	t-value	p-value	Result
TES > CTA	0.142	2.038	0.042	Significant
ISO \times MTM > CTA	0.095	1.756	0.079	Marginal

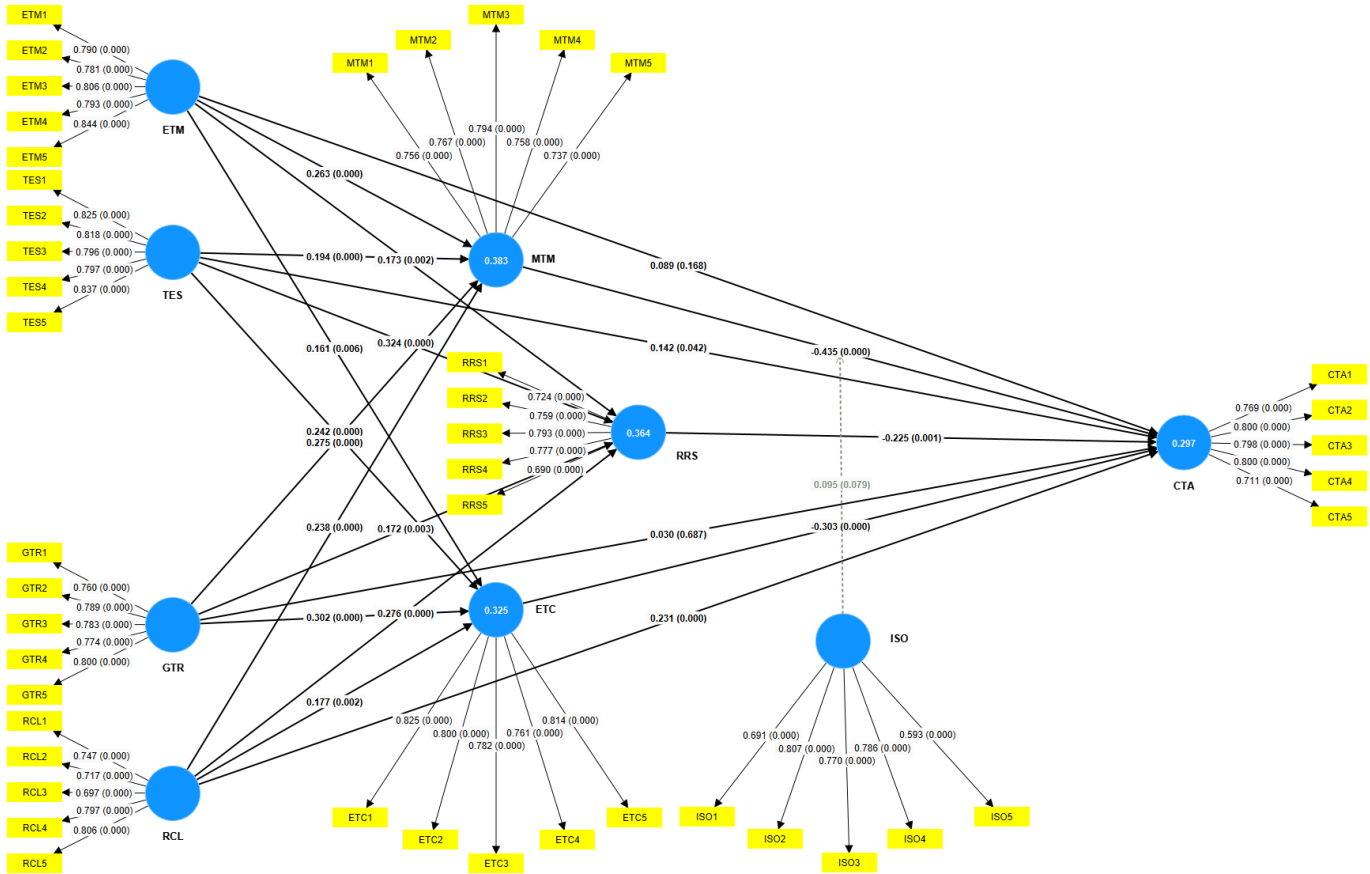


Figure 3 Structural Model (Inner Model)

Table 9. Mediation Results

Indirect Path	β (O)	t-value	p-value
ETM > ETC > CTA	-0.049	2.329	0.020
ETM > MTM > CTA	-0.114	3.981	0.000
ETM > RRS > CTA	-0.039	2.097	0.036
GTR > ETC > CTA	-0.091	3.530	0.000
GTR > MTM > CTA	-0.120	3.867	0.000
GTR > RRS > CTA	-0.039	2.229	0.026
RCL > ETC > CTA	-0.054	2.508	0.012
RCL > MTM > CTA	-0.104	3.446	0.001
RCL > RRS > CTA	-0.062	2.773	0.006
TES > ETC > CTA	-0.073	3.000	0.003
TES > MTM > CTA	-0.084	3.144	0.002
TES > RRS > CTA	-0.073	2.948	0.003

Table 10. Total Indirect Effects

Predictor > Outcome	Total Indirect Effect β (O)	t-value	p-value
ETM > CTA	-0.202	5.532	0.000
GTR > CTA	-0.250	5.741	0.000



RCL > CTA	-0.219	5.568	0.000
TES > CTA	-0.230	5.333	0.000

Table 11. Moderating Effects of Income-Shifting Opportunity

Interaction Path	β (O)	t-value	p-value	Interpretation
ISO × MTM > CTA	0.095	1.756	0.079	Marginal (10% level)

Table 12. Simple Slope Analysis for Interaction Effects

Interaction	Direction of Slope	Substantive Pattern
MTM > CTA at Low ISO	More negative (stronger restraint)	Moral restraint is most binding when shifting options are limited
MTM > CTA at High ISO	Less negative (weaker restraint)	Shifting flexibility reduces the effectiveness of moral restraint

Source Author 2025

4.6 Discussion of results

It extends the behavioral tax governance literature to show that corporate tax avoidance in Indonesian firms is less influenced by direct regulatory pressure and more by the internalization of moral and governance norms within managerial and organizational structures. Based on concepts of Upper Echelons Theory (Hambrick and Mason, 1984) and norm-internalization perspectives (Torgler, 2007; Tyler, 2006), the overall results also suggest that environmental tax morale and governance signals exert their influence over corporate tax behavior primarily through managerial tax morale, ethical tax culture, and reputational risk sensitivity. This pattern supports the notion that the mental models and moral compasses of executives serve as the key channels through which institutional contexts are translated into corporate effects.

The lack of a direct effect of environmental tax morale on corporate tax avoidance in combination with strong indirect routes means that social norms regarding taxation have an indirect impact through managerial decision making, not due to immediate behavioral obedience. This is consistent with Social Norms Theory (Cialdini et al., 1991), which asserts that normative influence only matters for behavior when it has been internalized by those generating the decision. With reference to the Indonesian case, where formal legal enforcement might be accompanied by relational and legitimacy-based governance, societal moral expectations seem to impact executives' attitudes first and subsequently influence organizational practices. This result complements previous evidence by indicating that environmental tax morale is acting as a farther, and not closer, fuel of one's compliance attitude.

Transparency in corporate governance and clarity in regulation would appear to be the most powerful of the institutional signals – but again, not directly, but mediately. Institutional theory (Scott, 2014) suggests that transparency and clarity should reinforce the

cognitive legitimacy of tax systems by making it easier for managers to think of compliance with laws as appropriate and expected. Ethical tax culture is critically important in this process,** suggesting that “tone at the top” is an observed phenomena in the area according to literature on corporate governance (Hermalin, 2001; Graham et al., 2022). When tax integrity is built into the fabric of an organisation's behaviour and incentive systems, aggressive tax structuring can be seen as culturally unacceptable - and unlikely to survive, even if it is technically possible. This lends to the view that good tax governance is culturally practiced, not just rule law enforcement.

Managers' tax morale is shown to be the dominant mediating channel, and thus our results confirm what upper echelons theory has predicted: that executive values and moral judgments impact on strategic decisions. Results from earlier studies have indicated that ethical preferences of the individual executives are imprinted on corporate tax consequences (Dyreg et al., 2010, Graham et al., 2014). The current findings contribute to this literature by anchoring the morality of managers in a more general governance ecology and by illustrating that executive ethics also depend on environmental tax morale, transparency, enforcement salience, and regulatory clarity. This recursive nature of the relationship highlights that managers are not merely independent decision makers but are socially embedded.

It is evident that the influence of reputational risk sensitivity is significant, albeit less influential. This finding aligns with the signalling and legitimacy theories (Deephouse and Suchman, 2008), which propose that firms internalise stakeholder expectations when reputational damage may adversely impact the firm's long-term value. In accordance with the aforementioned points, within a developing country such as Indonesia, where there is an increasing focus on public opinion regarding corporate tax behaviour, reputational considerations act as a constraint on aggressive tax



planning. However, reputation-based mechanisms appear to function as complements rather than substitutes. Consequently, reputational pressure is most efficacious when reinforced by internal ethical norms and governance structures.

The moderating effect of income-shifting opportunities constitutes a pivotal boundary for moral governance mechanisms. The utilisation of both aggressive and opportunity-based theories of tax avoidance (Rego, 2003; Klassen et al., 2017) has yielded findings that suggest the potential for organisational flexibility to compromise managerial ethical constraints. It is submitted that even managers who prioritise ethical conduct may be less motivated to refrain from abusive avoidance behaviours when firm architectures present them with technically complex or opaque opportunities for income shifting. The findings of this study indicate that moral theories of compliance must be characterised by a greater degree of complexity and refinement. It is asserted that the presence of reasonable ethical intent is insufficient on its own; such intent must also be substantiated by structural imperatives, a requirement that is particularly salient in instances involving a multinational corporation (MNC)-based or a group-structured organisation.

To summarise, the paper presents a multilevel behavioural governance model of tax compliance. This model originates from the interplay between institutionally symbolic forces, managerial ethics, organisational climate, reputational motives and structural opportunities (Smith, 2023). The findings indicate that enhancing transparency and regulatory clarity can be as efficacious as intensifying enforcement intensity for policymakers, provided that these actions result in enhanced moral internalisation among managers. The results indicate that for companies, the strategic value of cultivating ethical tax cultures and aligning incentives with long-term legitimacy rather than short-term tax savings is significant. The present study makes an original contribution to the academic literature by combining moral psychology with corporate governance and tax planning studies. It thereby provides a valid, theory-based conceptualisation of corporate tax behaviour in an emerging market context. Such a conceptualisation has hitherto been absent from the academic literature.

5. Conclusion

This research suggests that corporate tax avoidance is primarily a behavioural- and governance-centred problem, as opposed to one with 'pure' technical origins in response to the nature of the tax rules. Building on the Upper Echelons Theory and norm-internalization mechanisms, the results indicate that environmental tax

morale and governance signals do not directly deter tax avoidance but rather work through managerial tax morale, ethical tax culture, and reputational risk sensitivity. Managerial moral orientation is found to be the most powerful conduit of institutional expectations into corporate tax behavior, and ethical tax culture enhances compliance by subsisting as a constituent of organizational norms. The findings also show that income-shifting opportunities override moral constraints, and suggest the need to align ethical governance with structural controls. Overall, paper adds a nuanced understanding by highlighting that good tax governance in emerging economies should not only focus on enforcement and rule clarity but needs to promote moral legitimacy and ethical leadership in firms.

Theoretical implications

This study contributes to tax governance and behavioral accounting research by incorporating environmental tax morale into a multilevel model of firm's tax behavior. It contributes to Upper Echelons Theory by evidencing that managers act as moral agents who pass societal norms and governance signals through a firm-level tax decision channel. Second, the results extend norm internalization theory by revealing that moral coercion works indirectly through organizational means (managerial tax morale, ethical tax culture and reputational sensitivity) rather than direct institutional pressures. By simultaneously including multiple mediators and a structural moderator, this research addresses the need for greater focus on behavioral explanations of corporate tax avoidance in general, and in emerging-market environments.

Practical implications

For executives and boards, the findings reinforce that good tax governance is more than a matter of technical compliance or an external threat. The enhancement of manager ethical orientation, the promotion of an ethically compliant tax culture and the proactive management of reputational risk are some pivotal instruments to control aggressive tax behavior. Companies must bake tax integrity into senior evaluation criteria, internal controls and incentive systems for good measure, to guide decision-making towards the long-term legitimacy of tax decisions rather than only perceived short-term savings. Such practices may be particularly useful to complex organisational structures in which income-shifting opportunities could otherwise undermine moral considerations.

Policy implications

At the policy level, our findings provide support for developing countries like (e.g., Indonesia) to allow their

tax authorities combining the enforcement based approach and normative and governance based approach. Transparency advocacy, regulatory guidance and public discussion might enhance the consistency of morality in management and ethical conduct at the organizational level. There may be nearly as much difference to be made by the visibility of responsible tax behavior and by the reputational effect in law-abiding communities as there is to be made through audits and penalties. It is important that the disincentive for income-shifting opportunities works through an alignment of regulatory regimes which prevents companies from arbitraging away this structurally-based form of moral and governance compliance.

Limitations

This study has several limitations. First, it is based on perceptual survey data that can be influenced by response bias although validation of our measurement was rigorous. Second, causality as well as dynamic changes of moral and governance mechanisms across time could not generate due to a cross-sectional design. Third, even though the model is quite robust theoretically, it does not include an objective tax avoidance measure from financial statements to enhance external generalizability.

Future research directions

Further research can apply longitudinal studies that address how the evolution of governance reforms or enforcement regimes constrains (or induces) managerial moral conduits. Cross-country comparisons would also contribute to test the external validity of environmental tax morale in various institutional environments. Second, combining archival tax information with behavioral data might offer more insight as to how morals and structures jointly drive organizational tax decisions. Investigating other moderators (e.g., digital tax retaliation or ESG push) might also provide an interesting extension of the framework.

Appendix Table Data

Appendix A. Population and Sample Characteristics

Category	Description
Unit of analysis	Corporate decision-makers
Positions	CFO, Finance Director, Tax Manager, Head of Tax
Sample size	250 respondents
Firm scope	Multi-industry, varying firm sizes
Experience	Minimum 5 years in tax-related roles
Data type	Cross-sectional survey

Appendix B. Measurement Instrument and Variable Operationalization

Credit authorship contribution statement

Amri Amrulloh: Conceptualization, theory development, study design, methodology, data analysis, interpretation of results, writing of the original draft, and review and editing. **Yopie Diondy Kurniawan:** Study design, literature review and correction, instrument development, measurement validation, data interpretation, manuscript draft writing, critical review of this manuscript, and supervisio

Declaration of Competing Interest

The authors have no financial conflicts of interest or personal relationships that could be considered to influence the work reported in this article.

Declaration of Generative AI and AI-assisted technologies in the writing process

During the preparation of this work, the authors used the AI software Grammarly to enhance the paper's readability and language. After using this tool/service, the authors reviewed and edited the content as needed and take full responsibility for the content of the publication.

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Data availability

The data used to support the findings of this study are available from the corresponding author upon request.



No	Variable (Abbrev.)	Code	Dimension	Indicator	Source
X1 Environmental Tax Morale (ETM)					
1	Environmental Tax Morale (ETM)	ETM1	Moral norm	Tax avoidance is morally wrong even if it is legally possible	(Rodríguez & Horno Bueno, 2026)
2	ETM	ETM2	Social norm	People in my environment strongly disapprove of tax avoidance	(Rodríguez & Horno Bueno, 2026)
3	ETM	ETM3	Civic duty	Paying taxes is considered a civic and moral obligation	Alm & Torgler (2006, JEP)
4	ETM	ETM4	Ethical judgment	Firms engaging in tax avoidance are viewed as unethical by society	(Rodríguez & Horno Bueno, 2026)
5	ETM	ETM5	Normative pressure	Social norms encourage tax compliance beyond fear of penalties	(Rodríguez & Horno Bueno, 2026)
X2 Tax Enforcement Saliency (TES)					
6	Tax Enforcement Saliency (TES)	TES1	Enforcement visibility	Tax audits and enforcement actions are highly visible to firms	(Rodríguez & Horno Bueno, 2026)
7	TES	TES2	Detection likelihood	The likelihood of detecting aggressive tax behavior is high	Alm & McClellan (2012, JPubE)
8	TES	TES3	Sanction severity	Penalties for tax non-compliance are perceived as severe	(Rodríguez & Horno Bueno, 2026)
9	TES	TES4	Deterrence credibility	Tax enforcement is applied consistently and credibly	Alm & Torgler (2006, JEP)
10	TES	TES5	Behavioral deterrence	Strong enforcement discourages aggressive tax planning	(Rodríguez & Horno Bueno, 2026)
X3 Governance Transparency (GTR)					
11	Governance Transparency (GTR)	GTR1	Disclosure clarity	Tax governance policies are clearly disclosed	(Rodríguez & Horno Bueno, 2026)
12	GTR	GTR2	Process openness	Tax decision-making processes are transparent	(Rodríguez & Horno Bueno, 2026)
13	GTR	GTR3	Accountability	Clear accountability exists for tax decisions	OECD (2019); (Rodríguez & Horno Bueno, 2026)
14	GTR	GTR4	Stakeholder visibility	Stakeholders can assess the firm's tax governance quality	Lanis & Richardson (2015, JBE)
15	GTR	GTR5	Governance discipline	Transparency constrains aggressive tax strategies	(Rodríguez & Horno Bueno, 2026)
X4 Regulatory Clarity (RCL)					
16	Regulatory Clarity (RCL)	RCL1	Rule clarity	Tax regulations relevant to the firm are clearly defined	(Gómez-Carmona et al., 2023; Rodríguez & Horno Bueno, 2026)
17	RCL	RCL2	Interpretability	Tax rules can be interpreted consistently	
18	RCL	RCL3	Stability	Tax regulations are stable over time	OECD (2019)
19	RCL	RCL4	Ambiguity (R)	Regulatory ambiguity encourages aggressive tax interpretations	(Rodríguez & Horno Bueno, 2026)
20	RCL	RCL5	Regulatory communication	Changes in tax rules are communicated clearly and timely	
M1 Managerial Tax Morale (MTM)					
21	Managerial Tax Morale (MTM)	MTM1	Ethical stance	I reject tax strategies that are legal but ethically questionable	(Rodríguez & Horno Bueno, 2026)
22	MTM	MTM2	Moral responsibility	Managers feel morally responsible for the firm's tax contribution	(Rodríguez & Horno Bueno, 2026)
23	MTM	MTM3	Moral discomfort	I feel uncomfortable with aggressive tax engineering	(Rodríguez & Horno Bueno, 2026)
24	MTM	MTM4	Risk aversion	I prefer conservative tax positions under uncertainty	Graham et al. (2014, TAR)
25	MTM	MTM5	Ethical guidance	Ethical considerations guide my tax decisions	(Rodríguez & Horno Bueno, 2026)
M2 Reputational Risk Sensitivity (RRS)					
26	Reputational Risk Sensitivity (RRS)	RRS1	Media sensitivity	Media scrutiny strongly affects tax decisions	Graham et al. (2014, TAR)
27	RRS	RRS2	Public backlash	Public criticism of tax avoidance is costly	(Lanis et al., 2022; Richardson & Lanis, 2007)
28	RRS	RRS3	Investor reaction	Investors penalize firms engaged in aggressive tax practices	Gallemore et al. (2014, CAR)
29	RRS	RRS4	Brand risk	Tax avoidance can seriously damage corporate reputation	(Rodríguez & Horno Bueno, 2026)
30	RRS	RRS5	Behavioral restraint	Reputational concerns discourage aggressive tax planning	(Rodríguez & Horno Bueno, 2026)
M3 Ethical Tax Culture (ETC)					



No	Variable (Abbrev.)	Code	Dimension	Indicator	Source
31	Ethical Tax Culture (ETC)	ETC1	Tone at the top	Top management emphasizes tax integrity	(Rodríguez & Horno Bueno, 2026)
32	ETC	ETC2	Internal norms	Internal norms discourage aggressive tax behavior	(Rodríguez & Horno Bueno, 2026)
33	ETC	ETC3	Incentive alignment	Incentives do not reward aggressive tax savings	Graham et al. (2022, JF)
34	ETC	ETC4	Social responsibility	Tax decisions consider broader social impacts	(Rodríguez & Horno Bueno, 2026)
35	ETC	ETC5	Control mechanism	Internal mechanisms exist to reject aggressive tax schemes	(Hermalin, 2011; Rodríguez & Horno Bueno, 2026)
Y Corporate Tax Avoidance (CTA)					
36	Corporate Tax Avoidance (CTA)	CTA1	Tax minimization	The firm seeks to exploit all available tax loopholes	Cano-Rodríguez & Horno-Bueno (2026, RIBAF)
37	CTA	CTA2	Structural planning	The firm uses complex structures to reduce tax burden	Rego (2003, CAR)
38	CTA	CTA3	Gray-area acceptance	Gray-area tax strategies are acceptable if risks are manageable	Graham et al. (2014, TAR)
39	CTA	CTA4	Income shifting	The firm is willing to shift income across entities	Cano-Rodríguez & Horno-Bueno (2026, RIBAF)
40	CTA	CTA5	Strategic priority	Tax savings are treated as a strategic priority	(Hanlon & Heitzman, 2010, 2022)
Z Income-Shifting Opportunity (ISO) – Moderator					
41	Income-Shifting Opportunity (ISO)	ISO1	Structural flexibility	The firm has subsidiaries enabling income shifting	(Rego, 2003a; Rixen & Unger, 2022)
42	ISO	ISO2	Transfer pricing latitude	Transfer pricing allows flexible profit allocation	(Klassen et al., 2017)
43	ISO	ISO3	Jurisdictional arbitrage	Tax rate differentials can be strategically exploited	(Rodríguez & Horno Bueno, 2026)
44	ISO	ISO4	Operational mobility	Business activities can be relocated across entities	Dyregang et al. (2010, TAR)
45	ISO	ISO5	Aggressiveness channel	Income-shifting opportunities facilitate tax aggressiveness	(Rodríguez & Horno Bueno, 2026)

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