

The effect of corporate social responsibility on tax avoidance: the moderating role of political connections

Journal of
Business and
Socio-economic
Development

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Received 11 July 2025
Revised 2 November 2025
17 November 2025
Accepted 20 November 2025

Abstract

Purpose – This study investigates the relationship between corporate social responsibility (CSR) and tax avoidance (TA) and examines whether political connections (PC) moderate this relationship among manufacturing firms in Jordan.

Design/methodology/approach – Using a quantitative approach, the study analyzes panel data from 33 manufacturing firms listed on the Amman Stock Exchange (ASE) over the period 2013–2024. Year–firm fixed effects panel regression models were applied to control for unobservable heterogeneity, with TA measured through the effective tax rate (ETR), cash flow effective tax rate (CFETR) and book–tax difference (BTD).

Findings – The results show that CSR is associated with lower levels of TA, supporting the view that socially responsible firms adopt more compliant tax behavior. However, PC are linked to higher TA and weaken the constraining effect of CSR, indicating that politically connected firms rely more on political legitimacy than social legitimacy to maintain their reputation. These findings highlight the conditional nature of CSR's ethical influence in emerging markets.

Originality/value – The study extends legitimacy and stakeholder theories to the taxation domain by showing that while CSR enhances ethical compliance and accountability, its effectiveness is diminished in politically connected environments. The findings provide valuable implications for policymakers and regulators seeking to strengthen CSR frameworks and ensure alignment between ethical responsibility and fiscal transparency.

Keywords Corporate social responsibility, Tax avoidance, Political connections, Amman stock exchange, Jordan

Paper type Research article

1. Introduction

Corporate social responsibility (CSR) refers to companies' voluntary actions to develop society and the environment. It indicates integrating environmental and social factors into their business practices and engaging with stakeholders voluntarily. CSR can be described in various manners, such as how businesses consider their environmental and social effects in their processes, aiming to maximize benefits and minimize adverse consequences. CSR is viewed as vital for a company's success and survival, but a corporation isn't obligated to engage in it a view recognized by the [Commission of the European Communities \(2001\)](#).

From the company's perspective, taxation is a crucial factor in the decision-making process ([Lanis and Richardson, 2012](#)) because tax is one of the major expenses for the business and its direct influence on profitability and shareholder value ([Landry et al., 2013](#)). The financial obligations related to taxes, both for the company and its stakeholders, often lead them to tax avoidance (TA) ([Chen et al., 2010](#)). TA encompasses a range of actions taken to minimize tax liabilities ([Hanlon and Heitzman, 2022](#)). The term TA is commonly linked to the strategic



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Journal of Business and Socio-economic
Development
Vol. 6 No. 4, 2026
pp. 359-377
Emerald Publishing Limited
e-ISSN: 2635-1692
p-ISSN: 2635-1374
DOI 10.1108/JBSED-07-2025-0290

utilization of vulnerabilities or anomalies within tax regulations by taxpayers, aimed at diminishing their tax liability (Dyrend *et al.*, 2008). TA is an integral component of tax planning. Moreover, TA may involve tax aggressiveness, indicating that TA is just one aspect of a broader spectrum of tax strategies (Lietz, 2013).

CSR can influence TA by shaping a corporation's accounting and operational practices concerning the overall welfare of society (Desai and Dharmapala, 2006). From a societal viewpoint, corporate tax payments contribute to the funding of community resources (Friedman *et al.*, 2008). Hence, TA strategies of a company can potentially harm society (Friedman, 2003; Landolf, 2006). Furthermore, if a company is openly engaged in TA, it is usually seen as not contributing its equitable portion of firm taxes to support the government in funding community resources (Friedman, 2003; Friesen *et al.*, 2008). The difference in CSR and TA practices among businesses has consistently remained a significant concern for both scholars and policymakers (Abdelfattah and Aboud, 2020; Ananzeh, 2022; Hoi *et al.*, 2013; Krieg and Li, 2021).

While CSR and TA are often the subject of extensive discussion in finance, accounting and management literature, a lack of studies exists on how political connections (PC) might influence the connection between CSR and TA (Desai and Dharmapala, 2006). Therefore, it is vital to examine how corporations address TA and if CSR can reduce it when corporate political ties are a factor (Rashid *et al.*, 2024). In this research, we are going to see the role of political connection as a moderator in shaping the correlation between CSR and TA among Jordanian companies. The article offers a meaningful contribution by examining the relationship between CSR and TA, emphasizing the moderating role of PC.

This topic is important because it links ethical commitment and fiscal behavior – two areas often studied in isolation. The article adds value by showing how PC can either weaken or reinforce the effect of CSR on firms' tax strategies, depending on the nature of political influence. This multidimensional approach extends prior research that focused only on the direct CSR–tax link. The study also provides fresh evidence from an emerging market context, where informal networks and limited regulatory enforcement make PC particularly relevant. Jordan offers a distinctive case among emerging economies due to its concentrated ownership structures, strong family- and state-linked businesses, and evolving CSR and tax governance frameworks. These institutional features make Jordan an ideal context for examining how political power shapes firms' social and fiscal behavior, while offering comparative insights for other developing and transitional markets. The integration of CSR theory, legitimacy perspectives and political economy insights enhances its theoretical depth. Overall, it offers both academic and policy relevance by explaining how social responsibility interacts with power structures to shape corporate tax behavior.

While prior studies have examined the CSR–TA nexus in contexts such as BRICS countries (Jaafar *et al.*, 2025), Egypt (Almutairi and Abdelazim, 2025), Tehran (Salehi and Bashirimanesh, 2024), and Bangladesh (Karavitis *et al.*, 2025), limited research has addressed this relationship in the Jordanian context, particularly with PC as a moderating factor. This study fills this gap by exploring how CSR interacts with political ties to influence tax behavior in Jordan's manufacturing sector.

The empirical analysis, based on year–firm fixed effects panel regression covering the period 2013–2024, provides evidence that CSR is generally associated with lower levels of TA among Jordanian manufacturing firms. This finding supports the predictions of legitimacy and stakeholder theories, indicating that firms engaging more actively in CSR are less likely to adopt aggressive tax practices. However, the results also show that PC increases TA and weakens the relationship between CSR and TA, suggesting that politically connected firms rely more on political legitimacy than social legitimacy to maintain reputation. These findings highlight the conditional nature of CSR's ethical influence and underscore the importance of the institutional environment in shaping the effectiveness of CSR as a governance mechanism.

The remainder of the article is organized as follows: Section 2 presents the theoretical framework and literature review; Section 3 covers the study design and methodology; Section

4 focuses on data analysis and results, while Section 5 discusses the conclusion and recommendations.

2. Theoretical framework, literature review and hypotheses development

2.1 Theoretical framework

This study is grounded in Stakeholder Theory (Freeman, 1984) and Legitimacy Theory (Suchman, 1995), two complementary frameworks that explain how firms balance ethical commitment and fiscal behavior. Stakeholder Theory posits that a company's survival depends on satisfying the expectations of multiple stakeholder groups, not only shareholders but also governments, employees and society at large. Accordingly, socially responsible firms are expected to refrain from aggressive TA practices that could harm their reputation or stakeholders' welfare. Legitimacy Theory, meanwhile, asserts that organizations continually seek social approval by aligning their activities with prevailing social norms and values. Within this perspective, CSR and tax transparency become tools to maintain legitimacy and reduce reputational or regulatory risk.

Integrating both theories provides a robust foundation for analyzing how CSR influences tax behavior. Stakeholder Theory explains why ethical considerations drive firms toward responsible tax conduct, while Legitimacy Theory explains how firms strategically use CSR disclosures to maintain social acceptance. In emerging markets such as Jordan – where informal networks and political influence are pervasive – these theories jointly clarify how PC can moderate the CSR–tax relationship by shaping firms' need to secure legitimacy and manage stakeholder perceptions.

2.2 Tax avoidance

Hanlon and Heitzman (2022) indicate that there is no generally accepted meaning of TA, with authors using numerous interpretations of the term. Generally, TA involves challenges to minimize taxes through actions that influence the tax amount a business owes (Purwantini, 2017). Taxpayers' goal is to reduce their liability of tax to conserve funds, often engaging in TA by either breaking the law or staying within legal boundaries. Choi and Park (2022) describe TA as encompassing both legal and deductible actions, noting that TA often exploits legal loopholes rather than outright violating the law.

From a company's view, taxes are significant expenses, and reducing these tax expenses can substantially lead to higher profits (Landry *et al.*, 2013). To identify the best level of TA, a firm needs to weigh the benefits against the additional costs. These costs include implementation expenses and potential penalties (Chen *et al.*, 2010). Based on the theory of agency, there could be a conflict of interest between managers and owners. Owners delegate authority to managers, increasing the managers' ability to influence tax disclosure. Companies can engage in various actions to decrease their tax liabilities, but this does not necessarily mean that all such activities are inappropriate (Dyreng *et al.*, 2008). While owners aim for the business to operate ethically, agents often seek to maximize performance, which can result in paying a smaller amount of taxes.

Although TA is neither illegal nor unethical, it can be detrimental to the community (Meilinda, 2024). Al Amosh and Khatib (2022) describe a variety of tax management approaches, from perfectly legal actions like investing in municipal bonds to questionable practices like immoral transfer pricing. Transfer pricing is when a company puts prices for goods, services, or assets traded between its branches in different countries. This is mainly used by multinational companies (Kuo, 2023). It becomes unethical when the pricing is utilized to shift funds from countries with high taxes to those with low taxes and does not reflect market values. The activities of tax planning can fall anywhere on this range based on how aggressive they are in decreasing taxes (Al Amosh and Khatib, 2022).

Meanwhile, opinions vary on whether (TA) is acceptable; this range is also useful for discussing the ethics of TA, and whether it is ethically accepted to engage in corporate TA or

not. Huseynov and Klamm (2012) argued that TA is a company's responsibility to its shareholders to increase their wealth and decrease costs. Wilson (2009) inquires why companies don't engage in more tax sheltering, given its low costs and risks. Meanwhile, Sikka (2010) stated that engaging in TA is considered unethical because it harms governments in both rich and poor countries by decreasing the money available for public services like infrastructure, healthcare and education. This means society ends up paying the price for companies' TA.

From a Stakeholder Theory perspective (Freeman, 1984), aggressive (TA) conflicts with the firm's responsibility to broader stakeholders such as governments and society. Likewise, Legitimacy Theory (Suchman, 1995) suggests that firms seek to maintain public approval by aligning behavior with social norms. Excessive or opaque tax practices may therefore threaten both stakeholder trust and organizational legitimacy. These theories together provide the ethical foundation for this study, explaining why socially responsible firms are expected to adopt transparent and fair tax strategies.

2.3 Corporate social responsibility

CSR is a broadly discussed subject among both scholars and practitioners. Chamberlain *et al.* (2022) describe CSR as a business action that should be taken in regard to legal rights in specific situations, highlighting that it is necessary for meeting certain people's duties and essential for fulfilling customer expectations. This perspective highlights the importance of using business operations and distribution whose goal is to enhance global socioeconomic welfare. Carroll (1999) expanded the definition of CSR to encompass three key elements of an organization's social performance: addressing social issues, social responsiveness and social responsibility. He suggested that CSR should cover all societal responsibilities of an organization, including legal, economic and ethical duties. There are several challenges to attaining CSR, especially in developing countries where the organizations, principles and applications which support CSR are fairly weak (Zaidan and Melhem, 2025; Paembonan *et al.*, 2024)).

Lanis and Richardson (2012) argue that CSR often conceals unethical practices to reduce risk. Stakeholder theory stresses that success depends on meeting the interests of customers, employees, governments and the environment for ethical, legal, and financial reasons (Al Amosh and Khatib, 2022). Hajriati *et al.* (2024) suggest CSR regulations and awards could boost CSR efforts and disclosures. Bahimani *et al.* (2016) note CSR shapes public perception and legitimacy, with disclosures largely voluntary, unlike regulated financial reporting. Firmansyah *et al.* (2022) highlight the absence of global CSR standards, emphasizing the need for international regulations.

Viewed through Stakeholder Theory (Freeman, 1984), CSR represents a firm's commitment to balance profit-making with social responsibility by addressing the expectations of diverse stakeholders. Beyond moral duty, Legitimacy Theory (Suchman, 1995) frames CSR as a strategic response to external pressures, where companies demonstrate alignment with community values and institutional norms to secure continued acceptance. Thus, CSR functions as both a shield and a signal – protecting reputation while communicating ethical intent. This dual role strengthens public trust and reduces the likelihood of behaviors, such as TA, that could jeopardize the firm's legitimacy or stakeholder confidence.

2.4 Corporate social responsibility and tax avoidance

The CSR–tax behavior link tests a firm's ethics. While CSR signals social responsibility, tax minimization exposes tension between morality and profit. Truly responsible firms see tax compliance as societal duty, whereas others use CSR to mask aggressive tax strategies. This complexity highlights the need to separate genuine ethical engagement from strategic symbolism.

Several studies have inspected the relationship between TA and CSR. The implementation of CSR goal is to benefit the company's stakeholders (Dewi and Gunawan, 2019). Rashid and Hossain (2022) stated that according to the theory of stakeholder, it suggests that firms should avoid activities that negatively impact stakeholders and society as a whole. Similarly, corporate culture theory proposes that firms perform ethically based on these theories; companies with stronger CSR commitments are expected to pay higher taxes. Therefore, stakeholder theory would suggest a negative relationship between CSR engagement and TA. To support corporate culture theory, several studies have found a negative relationship between CSR activities and (TA) (Dakhli, 2021; López-González *et al.*, 2019). Lanis and Richardson (2012) discovered that businesses that engage in CSR are less likely to avoid paying taxes. Watson (2015) measured TA using the book-tax difference (BTD), and businesses were categorized into three categories based on their level of CSR engagement. The findings revealed no significant difference in BTD between the maximum and minimum CSR groups. However, the minimum CSR group had a better BTD than the other two groups, indicating a greater tendency to avoid taxes.

Ki (2012) recognized a negative relationship between CSR activities and TA. Similarly, research by Kim and Lee (2021) in Korea concluded that CSR activities discourage TA. Henry (2016) states that companies involved in natural resources are required to disclose their CSR activities, emphasizing that CSR is crucial for a company's long-term sustainability. This suggests that, like taxes, CSR is a mandatory activity for companies. However, CSR activities can decrease profits, potentially leading companies to perform in TA strategies to offset these costs. Henry (2016) found that firms which do not engage in CSR activities are more likely to participate in TA, which includes reducing taxable income through noneconomic activities.

Several studies show that CSR negatively impact TA activities. Watson (2015) discovered that firms in the United States, which do not participate in CSR, are more likely to participate in TA activities. Additionally, he stated that companies that are less likely to engage in CSR activities usually have greater unrecognized tax benefits than those that actively engage in CSR. He suggests that firms which engage in CSR attract consumers and investors who have similar beliefs and values, which makes them less likely to participate in TA activities. Zeng (2018) also discovered a negative link between CSR and TA. However, several tax investigations recommend that TA is mainly motivated by managers' personal choices and self-serving actions for their own benefit (Desai and Dharmapala, 2006; Wilson, 2009; Chen *et al.*, 2010). In these instances, managers might use CSR to obscure their TA activities, leveraging the positive effects of CSR as a form of insurance to protect themselves.

TA activities are risky; they can enforce significant costs on firms, such as increased government and public scrutiny, potentially damaging their reputations (Abu Nassar *et al.*, 2024). CSR can help firms to be protected from many risks by addressing negative corporate events. Firms can manage environmental uncertainties and reputation risks by disclosing CSR statements, ethical guidelines and commitments to responsible behavior. In these situations, CSR statements may be used to meet external users' expectations instead of helping stakeholders keep an eye on whether managers actually follow their commitments (Zeng, 2018). Lanis and Richardson (2015) used a framework of ethical theory to assess the impact of CSR on TA. According to this theory, firms that give emphasis to ethical values tend to disclose CSR activities. As CSR increases, these firms are seen as ethical and are less likely to be involved in unethical activities like TA. Other studies, such as Bozzolan *et al.* (2015), found consistent results, demonstrating that CSR is adversely associated with unethical activities like TA.

TA is widely perceived as unethical and can damage corporate reputation (Landolf, 2006). Sikka (2010) highlights major firms like Wal-Mart and Enron, showing gaps between CSR claims and TA practices, with CSR disclosures often masking tax strategies. Davis *et al.* (2016) find CSR negatively related to effective tax rates and positively linked to tax lobbying, suggesting CSR-active firms pay less tax. Other studies support this association, noting companies use CSR to offset reputational risks from TA (Richardson *et al.*, 2013). While some

argue tax payment reflects CSR principles, TA contradicts good corporate citizenship, creating mixed findings (Zeng, 2018).

H1. Corporate Social Responsibility has a Negative Effect on Tax Avoidance.

2.5 Political connections

The stakeholder management theory emphasizes that business managers must balance the interests of diverse stakeholders, challenging the traditional view of shareholder supremacy (Harrison and Freeman, 1999). Within this framework, relationships between the business community and government represent an essential dimension of stakeholder interaction. The connection between corporate actors and political institutions has therefore become a central topic of public interest and academic debate. Government agencies frequently support corporate research and development initiatives, but the effectiveness of such support depends on the nature of political ties linking both sides (Zaidan and Melhem, 2025; Cheung and Leung 2024). PC thus serves as a critical bridge between governmental and corporate stakeholders—a phenomenon observed worldwide (Najaf and Najaf, 2021).

Even in developed countries like the United States, close relationships between companies and politicians are extensive, and it is not unusual for executives or directors to have military or government backgrounds (Hillman, 2005). Li *et al.* (2008) and Ang and Jia (2014) classified companies as politically associated if their CEO or their chairman had been formally employed for government, based on resume information provided by listed companies. By studying political connection in different countries, researchers have concluded that firms can gain scarce resources and competitive advantages through intimate relationships with government. These advantages include tax incentives, financial support and research and development subsidies (Rashid and Hossain, 2022). Faccio (2006) stated that government leaders mostly leverage their private sector positions to secure additional financial funds for associated companies, enabling them to support their research and development activities sufficiently.

Political connection is prevalent even in non-shell companies. Wang *et al.* (2020) suggested that manipulation of financial data occurs in more than half of projects applying for financial support provided by the Chinese government. For instance, Jin Chen and his family, who founded have of Hanxin Microprocessor, defrauded about 110 million yuan in national research and development support by forging experimental data, as they never developed microprocessor design technology. Therefore, secure political ties will provide non-shell firms with opportunities for defrauding governmental aids (Wang *et al.*, 2020). Overall, political ties play a decisive role in shaping corporate conduct, making them an essential factor in understanding how CSR relates to TA.

2.6 Corporate social responsibility, tax avoidance and political connection as a moderating variable

Companies with PC can often do better than those without because they get special treatment from the government. CSR could be used to meet political goals, but the researches about this field is limited. Survey data from Sánchez (2000) indicates that El Salvador companies contribute to charitable organizations to strengthen their political standing. Ma and Parish (2006) argued that firm contributions help firms manage political instability. Wang and Qian (2011) found that firm CEOs who are politically connected are more likely to give donations to charity, indicating a request from the government to engage in CSR activities. Though assessing PC and political legitimacy is difficult, and these studies do not offer clear evidence of a connection between PC and CSR (Wang and Qian, 2011). These findings highlight that political ties often shape CSR activities not only as acts of goodwill but also as tools to sustain influence and legitimacy.

Local government officials are chosen by the central government without influence from local companies; this event creates a shock to current PC. Once changing the governor, firms

which were connected previously to the government sever their ties, while non-connected companies take an opportunity to establish connection with new officials (Leuz and Oberholzer-Gee, 2006). Consequently, firms aiming to build connections with the new government, which will be competing for scarce political resources, potentially increasing their CSR activities around or after governmental turnovers in an effort to establish new (PC). This suggests that CSR behavior may rise or fall as firms attempt to rebuild legitimacy under new political environments.

PC have an important effect on how CSR influences TA. Prior studies (Leuz and Oberholzer-Gee, 2006; Christensen and Murphy, 2004) emphasize the importance of PC in analyzing corporate behavior. Research conducted in Indonesia by Wulandari and Rahman (2004) suggests that nonpolitically connected firms tend to perform better than those that are politically connected. Moreover, firms that are politically connected often oversee CSR activities, which have positive effects in building legitimacy and improving their image with stakeholders. The literature on political economy specifies that political ties are closely linked to company's operational activities and significantly influence their strategic decisions (Faccio, 2006; Leuz and Oberholzer-Gee, 2006; Guedhami *et al.*, 2014). PC offers significant benefits. Faccio (2006) stated several ways in which the government rewards firms that are politically connected, such as reduced tax burdens, decreased regulatory scrutiny, and access to long-term financing. Previous research indicates that being politically connected influences company performance (e.g. Rose-Ackerman, 1999). Adhikari *et al.* (2006) research shows that effective tax rate (ETR) is lower in politically connected firms.

Although the influence of PC in examining the link between TA and CSR remains underexplored. According to Boubakri *et al.* (2012) certain characteristics of politically connected firms, like low chance in detecting TA, improved access to information about changes in tax laws, flexible creditor control, lack of transparency influence and strong ties with regulatory authorities – can impact their strategic selections. These studies suggest that firms with political ties might not need to depend on CSR to mitigate risks associated with TA. Thus, political connection may reduce how CSR influence TA. Kim and Zhang (2016) stated that the advantage of PC is that companies with political ties are more inclined to participate in TA. This can be because these companies may experience lower chances of being detected, have better information about future tax changes, experience fewer political consequences for tax planning, and show a high ability to face risks. This expectation aligns with previous research, such as the studies of (Sudibyo and Jianfu, 2016; Adhikari *et al.*, 2006) which found that PC have a positive link with TA. Hence, companies with PC are less likely to be seen as using CSR disclosure to establish legitimacy, potentially leading to an increased probability of participating in TA activities (Pratiwi *et al.*, 2024).

H2. Political connections weaken the effect of corporate social responsibility on tax avoidance.

3. Study design and methodology

3.1 Population and sample

The initial population included all active manufacturing firms listed in the first and second markets by the end of 2024. Financial firms were excluded from the sample due to their distinct regulatory frameworks, disclosure requirements and sector-specific accounting practices (Alshirah *et al.*, 2022; Mansour *et al.*, 2020). After applying the data availability criteria, 33 firms were found to have records for the period 2013–2024, resulting in 396 firm-year observations. Data were manually collected from audited annual reports and cross-verified with information from the ASE official website. CSR data were extracted through a structured content analysis approach, while financial and control variables were obtained from company disclosures and ASE databases. This extended time frame (2013–2024) captures both pre- and post-pandemic periods, reflecting the evolving regulatory, economic and CSR reporting environment in Jordan.

3.2 Variables definition and measurement

3.2.1 *Dependent variable: tax avoidance.* TA is encompassed within the broader concept of tax planning, representing an intersection between financial optimization and legal adherence. Navigating TA, therefore requires a clear understanding of both financial strategy and regulatory compliance. Consistent with Hanlon and Heitzman (2022), this study adopts the broad definition commonly used in prior literature, referring to activities undertaken by firms to reduce explicit tax payments while remaining within the boundaries of the law.

Following Abu Nassar et al. (2024) and prior empirical work (Chen et al., 2010; Lanis and Richardson, 2012), the study measures TA using three widely recognized proxies. The ETR represents the ratio of tax expense to pre-tax income and reflects the overall tax burden borne by the firm; a lower ETR signifies higher engagement in TA. The BTD captures the gap between accounting income and taxable income, highlighting timing and policy differences that result from tax planning; a larger BTD indicates greater TA. Finally, the Cash Flow Effective Tax Rate (CFETR) measures tax expense relative to operating cash flow, providing a cash-based perspective of the firm's tax payments; a lower CFETR similarly implies higher levels of TA. The detailed measurement of these variables is presented in Table 1.

3.2.2 *Independent variable: corporate social responsibility disclosure.* The independent variable, CSR disclosure, is measured following Barakat et al. (2015) and Zaidan and Melhem (2025). Research identifies four key CSR dimensions relevant to the Jordanian context: environmental practices, human resource policies, products and consumer's, and community involvement. Based on these dimensions, a checklist comprising 48 disclosure indicators was used to evaluate the extent of CSR reporting by firms. Each item in the checklist receives a score of 1 if disclosed and 0 if not disclosed. The CSR index is then calculated as the ratio of the total number of disclosed items to the total number of applicable items. This method provides a reliable and comprehensive measure of a firm's commitment to social and environmental responsibility.

3.2.3 *The moderator variable: politically connected board members.* A company is considered politically connected PC if at least one of its board of directors, in a given year, currently holds or has previously held a significant governmental or public position. Such positions include Prime Minister, Minister, Member of Parliament, Member of the Senate, official in a government institution, representative of a government-owned company, ambassador or military official.

The PC variable is defined as a binary (dummy) variable, assigned a value of 1 if the company has at least one politically connected board member, and 0 otherwise. This definition

Table 1. Variable measurements and definitions

Variable code	Variable name	Measurement
CSR	Corporate social responsibility index	A checklist comprising 48 disclosure indicators was used to evaluate the extent of CSR reporting by firms
ETR	Effective Tax Rate	Tax Expense/Pre-tax income
CFETR	Cash flow Effective Tax Rate	Tax Expense/Operating cash flow
BTD	Book tax difference	(Accounting income – taxable income)/Total Assets
PC	Politically connected	The PC variable is binary, taking a value of 1 if the company has a PC member, and 0 otherwise
SIZE	Firm size	The natural logarithm of total assets at the end of the year <i>t</i>
LEV	Leverage	The book value of liabilities to the book value of net assets at the end of the year <i>t</i>
ROA	Return on assets	Net income divided by total assets at the end of the year <i>t</i>
AGE	Firm age	The difference between the year in which the firm was established and the current fiscal year

aligns with prior studies examining PC within similar institutional contexts (Boubakri *et al.*, 2012; Ananzeh *et al.*, 2023; Almarayeh *et al.*, 2024; Zaidan and Melhem, 2025).

3.2.4 Control variables. In line with prior research on corporate tax behavior, this study includes several firm-specific control variables to account for factors that may influence TA. Firm size (SIZE) is controlled for, as larger firms often possess more resources and opportunities for tax planning but are also subject to higher regulatory scrutiny (Wilson, 2009; Lanis and Richardson, 2012). Leverage (LEV) is included because firms with higher debt levels can lower taxable income through interest deductions, thereby affecting TA decisions (Hoi *et al.*, 2013). Profitability (ROA) is controlled since more profitable firms may have stronger incentives and greater capacity for tax minimization. Finally, firm age (AGE) is incorporated to capture the maturity and experience of the firm, as older companies may adopt more structured tax planning strategies compared to younger firms (Lanis and Richardson, 2007). By controlling for these variables, the study isolates the net effects of CSR and PC on TA, ensuring the robustness and validity of the empirical results.

3.3 Regression model

To reach the goal of this research and test the role of PC as a moderator in shaping the relationship between CSR and TA, we used the following three regression models:

$$TA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \beta_5 AGE_{it} + \beta_6 Year_i + \beta_7 Firm_t + \gamma_{it} \quad (1)$$

$$TA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 PC_{it} + \beta_3 SIZE_{it} + \beta_3 ROA_{it} + \beta_5 LEV_{it} + \beta_6 AGE_{it} + \beta_7 Year_i + \beta_8 Firm_t + \gamma_{it} \quad (2)$$

$$TA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 PC_{it} + \beta_3 PC_{it} \times CSR_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \beta_7 AGE_{it} + \beta_8 Year_i + \beta_9 Firm_t + \gamma_{it} \quad (3)$$

Where:

TA: tax avoidance as explained in section 3.2.1; CSR: Corporate Social Responsibility as explained in section 3.2.2; PC: politically connected board members as explained in section 3.2.3; PC $\times$ CSR is the interaction term. SIZE = natural logarithm of total assets; ROA: Return on assets; LEV: Leverage; AGE: Firm age; The measurement of these variables can be found in Table 1.

4. Empirical results

4.1 Descriptive statistics

Table 2 provides the descriptive statistics for the key variables. The CSR index ranges from 0.0420 to 0.6250. This means the lowest CSR score among the companies in the data set is 4.2% and the highest CSR score is 62.5%, with a mean of 32.50% and SD is found to be 13%. A lower SD means that the values are closer to the mean, indicating moderate variation in CSR activities between firms. The ETR is one measurement of the TA, ranges from -0.139 to 0.508, with a mean of 0.071 which shows that some firms participate in TA, as this value is lower than the normal tax rate, which falls between 10% and 20% and a SD of 0.109, suggesting some firms had negative tax rates while others had significantly positive rates.

The Tax Expense/Cash (second measure of AT) ranges from -0.140 to 0.115, with a mean of 0.003, which means that there is TA in some firms because the typical tax rate is between 10% and 20% and the mean is 0.003 and an SD of 0.038, showing very small variation in tax

Table 2. The descriptive statistics for the key variables

Variable	N	Min	Mean	SD	p50	Max
CSR	396	0.042	0.325	0.130	0.313	0.625
ETR	396	−0.139	0.071	0.109	0.041	0.508
CFETR	396	−0.140	0.003	0.038	0.000	0.115
BTD	396	−0.427	0.046	0.136	0.002	0.608
PC	396	0.000	0.312	0.466	0.000	1.150
CSR*PC	396	5.710	7.450	0.679	7.440	9.290
SIZE	396	8	38	20	34	100
ROA	396	0.030	0.373	0.217	0.340	0.930
AGE	396	7	38	20	34	101
LEV	396	0.0255	0.3450	0.2000	0.3130	0.8820

Note(s): This table summarizes the main sample statistics of key variables for the 396 firm-year observations in the sample between 2013 and 2024

expense to cash. The Tax Difference variable (a third measure of the TA) ranges from −0.427 to 0.608, representing that there is variation among the firms, with a mean of 0.046 and a SD of 0.136. The Tax Difference reflects small variations between different tax accounting measures among the firms. Political connection, a moderating variable, is a binary variable that ranges from 0 to 1, with a mean of 0.312 and SD of 0.466, representing that less than 50% of the firms are politically connected.

4.2 Correlation analysis

The correlation analysis in Table 3 shows numerous significant correlations at both the 0.01 and 0.05 levels. The CSR index has a positive correlation with the ETR ($r = 0.227$, Sig. < 0.01), showing that companies with higher CSR activities are associated with lower TA practice measured by ETR. The tax difference (Tax Diff) shows a positive and statistically significant correlation with CSR ($r = 0.304$, Sig. < 0.01). This could be because companies that participate in high CSR activities may invest in community and environmental projects that provide tax incentives, slightly affecting their tax difference. In contrast to other measures, the Tax Expense to Cash ratio exhibits no statistically significant relationship with CSR ($r = 0.050$, $p > 0.05$).

In addition, the CSR index has a positive correlation with Political Connection ($r = 0.244$, Sig. < 0.01), showing companies that are politically connected often participate more in CSR activities. Moreover, the CSR index has a positive correlation with some control variables such as size and leverage, suggesting that larger and more profitable firms tend to have higher CSR scores. The interaction term Political Connection and CSR also presents a high positive correlation with CSR ($r = 0.123$, Sig. < 0.01), representing the significant moderating impact of PC on the relationship between CSR and TA.

4.3 Regression analysis

To examine the study’s hypotheses, three econometric models were estimated using year–firm fixed-effects panel regression. Model (1) tests the direct effect of CSR on (TA) (H1); Model (2) introduces PC to capture their main influence on tax behavior and Model (3) adds the interaction term $CSR \times PC$ to test the moderating role of PC (H2). Fixed effects control for unobservable firm-specific characteristics (e.g. governance culture, ownership, managerial philosophy) and macro-level variations such as tax reforms or economic shocks.

4.3.1 Direct effect of CSR on tax avoidance. Table 4 presents the baseline results for Model (1), which evaluates the effect of CSR on TA. TA is proxied by three alternative measures: ETR, CFETR and BTD. The results show that CSR is positively and significantly associated

Table 3. Correlation matrix of study variables

Variables	CSR	ETR	CFETR	BTD	PCON	CSR*PCON	Size	ROA	AGE	LEV
CSR	1									
ETR	0.227***	1								
CFETR	0.051	−0.160***	1							
BTD	0.304***	0.345***	−0.138**	1						
PCON	−0.244***	−0.425***	−0.287***	−0.192***	1					
CSR*PCON	0.123*	−0.049	0.104	−0.059	0.021	1				
SIZE	0.297***	0.350***	−0.090**	0.292***	−0.176***	−0.116**	1			
ROA	−0.06	−0.229***	−0.204***	−0.122***	0.407***	0.336***	−0.08	1		
AGE	−0.075	0.112**	0.045	−0.072	−0.056	−0.076	−0.056	−0.280***	1	
LEV	−0.093**	0.003	0.017	−0.039	0.003	0.073	−0.032	−0.084**	−0.041	1

Table 4. The regression analysis (direct effect of CSR on tax avoidance)

Variables	ETR	CFETR	BTD
CSR	0.113** (0.0386)	0.0294 (0.247)	0.238*** (0.000477)
SIZE	0.00170*** (0.0000)	−0.000305** (0.0414)	0.00133*** (0.00272)
ROA	−0.0381 (0.346)	−0.0246 (0.338)	0.00666 (0.889)
AGE	−0.00604 (0.317)	0.00420*** (0.000228)	−0.00413 (0.179)
LEV	−0.00720 (0.907)	0.0232 (0.295)	−0.0399 (0.513)
Constant	0.194 (0.370)	−0.139*** (0.00497)	0.0796 (0.517)
Observations	396	396	396
R-squared	0.169	0.066	0.141
Number of idno	33	33	33

Note(s): This table presents the regression results of TA measured by ETR, CFETR and BTD on the CSR. Standard errors are adjusted for errors are adjusted for firm-level clustering and are robust to heteroscedasticity and autocorrelation. Two-tailed *p*-values are presented in parentheses. ****p* < 0.01, ***p* < 0.05, **p* < 0.1

with ETR ($\beta = 0.113$, $p < 0.05$) and BTD ($\beta = 0.238$, $p < 0.01$), while the coefficient for CFETR is positive but statistically insignificant. Because a higher ETR denotes lower (TA), these findings indicate that firms with higher CSR engagement are less likely to pursue aggressive tax strategies. The positive relation between CSR and BTD further suggests that socially responsible firms exhibit smaller discrepancies between accounting and taxable income – evidence of transparent, compliant reporting practices.

These results support [H1](#), confirming that CSR exerts a negative effect on TA. Consistent with legitimacy theory, firms engaging in CSR seek to maintain alignment with societal norms and expectations; paying a fair share of taxes is part of this social contract. Aggressive tax planning would jeopardize legitimacy and damage corporate reputation. From a stakeholder-theory standpoint, CSR-committed firms recognize taxation as a mechanism through which they contribute to collective welfare and fulfill stakeholder expectations, reinforcing trust and long-term sustainability.

The insignificant CSR–CFETR link may stem from the volatility of cash flows and timing differences in tax payments, which mask long-term ethical effects. Nonetheless, the overall direction of coefficients across all models underscores that CSR acts as a moral and reputational constraint on opportunistic tax behavior.

Among control variables, firm size (SIZE) is positively related to ETR and BTD, implying that larger firms – subject to greater visibility and regulatory scrutiny – display more conservative tax behavior. ROA, leverage (LEV) and firm age (AGE) are statistically insignificant.

These results collectively affirm that CSR engagement discourages TA in Jordanian firms, consistent with the expectations of both legitimacy and stakeholder theories.

4.3.2 The role of political connections. [Table 5](#) presents the results of Model (2), which incorporates PCs alongside CSR and control variables. The coefficients for PC are negative and highly significant in the ETR ($\beta = -0.0841$, $p < 0.01$) and CFETR ($\beta = -0.0224$, $p < 0.01$) models, indicating that politically connected firms tend to engage in higher TA. This finding suggests that political ties provide access to preferential treatment or leniency in enforcement, allowing such firms to exploit fiscal advantages unavailable to others. The CSR variable remains significant only in the BTD model ($\beta = 0.222$, $p < 0.01$) once (PC) are added, implying that political influence dampens the strength of CSR’s disciplinary effect on tax

Table 5. The regression analysis (the role of political connections)

Variables	ETR	CFETR	BTD
CSR	0.0537 (0.330)	0.0137 (0.602)	0.222*** (0.00248)
PCON	−0.0841*** (0.000)	−0.0224*** (0.000)	−0.0223 (0.172)
Size	0.00148*** (0.000)	−0.000364** (0.0166)	0.00127*** (0.00284)
ROA	−0.0190 (0.658)	−0.0196 (0.440)	0.0117 (0.811)
AGE	−0.00590 (0.395)	0.00424*** (0.000109)	−0.00409 (0.209)
LEV	−0.0279 (0.550)	0.0177 (0.442)	−0.0454 (0.436)
Constant	0.241 (0.325)	−0.127*** (0.00730)	0.0920 (0.461)
Observations	396	396	396
R-squared	0.280	0.127	0.146
Number of idno	33	33	33

Note(s): This table presents the regression results of TA measured by ETR, CFETR and BTD on the CSR and PC. CF errors are adjusted for firm-level clustering and are robust to heteroscedasticity and autocorrelation. Two-tailed *p*-values are presented in parentheses. ****p* < 0.01, ***p* < 0.05, **p* < 0.1

behavior. In other words, CSR's role as an ethical governance mechanism becomes weaker when firms are embedded in politically protected networks.

These results support the premise that PC distort accountability structures. Drawing on stakeholder theory, politically connected firms may prioritize the interests of political patrons over broader societal stakeholders, reducing responsiveness to public expectations. From a legitimacy-theory perspective, PC substitute social legitimacy with political legitimacy – firms rely on state-level relationships rather than ethical conformity to maintain legitimacy. Consequently, tax compliance becomes less tied to CSR values and more contingent on political leverage.

Table 6 presents Model (3) estimates, incorporating the interaction term $CSR \times PC$ to test H3. The coefficient is positive and significant only in the CFETR model ($\beta = 0.0154$, $p < 0.05$), indicating that PCs weaken CSR's negative effect on TA, primarily through cash-based tax behavior. This suggests that CSR's role in discouraging TA diminishes when firms are politically connected. Political ties reduce reputational and compliance pressures associated with CSR, allowing firms to maintain visible CSR programs while leveraging political legitimacy for favorable tax outcomes – a pattern consistent with symbolic CSR.

These findings confirm H2 and align with legitimacy theory, which posits that politically connected firms derive legitimacy from affiliations rather than ethical performance, reducing the need for tax compliance. Stakeholder theory similarly predicts that political actors dominate the stakeholder environment, weakening societal influence and CSR's ability to constrain opportunistic behavior. In Jordan's relationship-based governance context, political embeddedness reshapes the CSR–TA link. CSR becomes a reputational shield coexisting with aggressive tax strategies supported by political protection, illustrating how informal institutions undermine formal ethical mechanisms – a dynamic typical of emerging economies.

These results underscore the dual institutional forces operating in emerging markets – ethical accountability through CSR on one hand, and political influence through informal networks on the other. Together, they shape firms' fiscal behavior and determine whether CSR functions as a genuine governance mechanism or merely as a strategic instrument for maintaining legitimacy.

Table 6. The regression analysis (moderating effect of political connections)

Variables	ETR	CFETR	BTD
CSR	0.0528 (0.361)	0.00748 (0.770)	0.224*** (0.00313)
PC	−0.0837*** (0.0000)	−0.0192*** (0.000918)	−0.0230 (0.145)
CSR*PC	0.00226 (0.855)	0.0154** (0.0156)	−0.00352 (0.791)
SIZE	0.00149*** (0.0000)	−0.000245** (0.0454)	0.00125*** (0.00383)
ROA	−0.0209 (0.623)	−0.0322 (0.201)	0.0146 (0.765)
AGE	−0.00593 (0.398)	0.00405*** (0.000250)	−0.00405 (0.202)
LEV	−0.0284 (0.545)	0.0143 (0.515)	−0.0446 (0.436)
Constant	0.226 (0.357)	−0.229*** (0.00118)	0.115 (0.482)
Observations	396	396	396
R-squared	0.280	0.164	0.146
Number of idno	33	33	33

Note(s): This table presents the regression results of TA measured by ETR, CFETR and BTD on the CSR PC and interaction terms. CF errors are adjusted for firm-level clustering and are robust to heteroscedasticity and autocorrelation. Two-tailed *p*-values are presented in parentheses. ****p* < 0.01, ***p* < 0.05, **p* < 0.1

5. Conclusion, contributions, implications, limitations and future research

This study examined the relationship between CSR and TA among manufacturing firms listed on the Amman Stock Exchange between 2013 and 2024, incorporating PC as both a direct and moderating factor. Using year–firm fixed effects panel regression across three TA measures ETR, CFETR and BTD, the study provides evidence that CSR is generally associated with lower levels of TA, although this effect weakens in politically connected environments. These results highlight that the ethical and reputational influence of CSR depends not only on firm-level governance but also on the broader institutional context in which firms operate.

Theoretically, the study extends the application of legitimacy and stakeholder theories to the domain of corporate taxation. It demonstrates that CSR operates as a moral and reputational mechanism promoting compliance, yet its effectiveness diminishes when firms rely on political legitimacy rather than social legitimacy to sustain their standing. This contributes to the growing body of work on how informal institutional factors, such as political ties, can reshape the ethical boundaries of corporate behavior in emerging markets. By examining this interaction, the study bridges the gap between CSR, governance and fiscal responsibility, showing how institutional dynamics mediate the effectiveness of CSR as a governance tool.

Methodologically, the study contributes by employing firm–year fixed effects to address unobservable heterogeneity and by using multiple proxies for TA to ensure robustness. This approach strengthens the empirical foundation for future CSR–tax research in emerging economies, where both ethical practices and institutional relationships play central roles in shaping firm behavior.

The findings hold important implications for policy and practice. For policymakers and regulators, the results indicate that voluntary CSR disclosure is insufficient to deter TA unless supported by stronger enforcement and accountability mechanisms. Integrating CSR indicators into fiscal monitoring systems could improve transparency and ensure alignment between ethical commitments and tax conduct. For managers, the study underscores that CSR

should be embedded within internal governance frameworks rather than treated as a symbolic exercise. Reliance on political influence may offer temporary protection but ultimately weakens stakeholder trust and undermines sustainable legitimacy. For investors and broader stakeholders, the evidence emphasizes the need for greater scrutiny of politically connected firms whose CSR engagement may serve as a reputational façade rather than a reflection of ethical practice. Transparent reporting and stronger governance controls can help restore confidence and reinforce responsible corporate behavior.

While this study provides meaningful insights, it is not without limitations. The sample is limited to 33 manufacturing firms, and PC are captured using a binary measure that does not account for variations in influence. Future research could extend the analysis to other sectors, employ multidimensional indicators of political ties, and integrate qualitative evidence to capture managerial perspectives on CSR and taxation. Comparative studies across emerging markets could further clarify how differences in institutional strength affect the interaction between social and political legitimacy.

In conclusion, this study offers a nuanced understanding of how CSR and PC jointly influence corporate tax behavior. It reveals that CSR can function as an ethical constraint on TA, but that its power is contingent upon the institutional environment. In settings where political embeddedness dominates, CSR's normative force weakens and firms may rely more on influence than integrity. These findings provide both theoretical and practical guidance for advancing accountability, transparency and ethical governance in emerging-market contexts.

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