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Does Media Influence Tax Avoidance? The Moderating Role of Corporate Social Responsibility

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ABSTRACT

The role of media scrutiny in influencing corporate behavior has gained increasing attention, particularly concerning tax practices. This study explored how negative media coverage affected corporate tax avoidance among firms listed on the French SBF 120 index from 2010 to 2023. Employing panel regression techniques, the analysis investigated whether adverse media attention deters aggressive tax strategies. The robustness analysis found that negative media coverage generally reduced tax avoidance, but it encouraged aggressive tax strategies when coupled with a high governance, social, and environmental (ESG) score. This implies that companies with strong ESG scores may adopt such strategies to fund Corporate Social Responsibility initiatives and regain legitimacy. These findings suggested that ESG performance can, under certain conditions, alter the impact of media scrutiny. The study emphasized the need for regulators to integrate tax transparency into ESG reporting standards, highlighting tax behavior as a vital component of corporate accountability. By shedding light on the interplay between media exposure and ESG factors, this research offers novel insights into the drivers of corporate tax behavior in a socially conscious business environment.

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1. INTRODUCTION

In recent years, tax revenues have declined due to aggressive tax avoidance strategies by multinational corporations that shift profits to low-tax jurisdictions through legal loopholes. High-profile cases involving firms like Apple, Facebook, Starbucks, and Enron have highlighted the widespread nature of these practices. In response, global efforts—such as the G20-backed OECD BEPS initiative and the EU's push for a unified corporate tax base—aim to curb such behavior.

Media scrutiny has become a powerful tool in this fight, acting as an external monitoring mechanism that increases reputational and political costs for firms engaged in tax avoidance. Public pressure, driven by investigative reporting (e.g., Panama and Paradise Papers), has led to the recovery of billions in unpaid taxes globally, including nearly €200 million in France. However, academic research on the relationship between media coverage and corporate tax avoidance has yielded mixed results. Some studies (e.g., Dhaliwal et al., 2017; Qi et al., 2023; Menicacci & Simoni, 2024) have suggested that negative media attention reduced tax avoidance, especially during times of public activism. Others, like Chen et al. (2019), found no significant effect. In some cases, companies like Walgreens have altered tax strategies in response to public backlash. Overall, while the media can deter tax avoidance, its effectiveness appears context-dependent.

In this study, we chose to examine negative media coverage, such as tax fraud, parallel imports, or money laundering, because this type of media coverage can have a significant impact on the public. When such bad news is shared, firms become more visible, drawing increased public attention. Thus, this study aimed to examine the relationship between negative media coverage and tax avoidance by introducing the governance, social, and environmental (ESG) score as a moderating variable. Our study differs from others in that it explored the impact of negative news on tax avoidance and integrated ESG as a moderating variable. Unlike the study by Menicacci and Simoni (2024), which investigated how negative media coverage of ESG issues affected tax avoidance, our study specifically focused on the impact of negative news on tax avoidance while emphasizing the moderating effect of ESG.

Using a French sample from the ASSET4 database throughout 2010-2023, our empirical analysis of robustness showed that negative media coverage was negatively associated with tax avoidance. The French context was well-suited for this research due to its strong and diverse media landscape and the significant evolution of Corporate Social Responsibility (CSR). France has a long-standing media tradition across print, audiovisual, and digital platforms. CSR gained official recognition with the 2001 NRE Law, which required large companies to report social and environmental information. The 2010 Grenelle II Law reinforced these obligations, promoting transparency. Additionally, many firms voluntarily aligned with global initiatives like Agenda 21 to adopt sustainable development practices.

The study contributes to the existing literature in several ways: First, the impact of negative news on tax avoidance through the moderating effect of the ESG score has not been studied in the French context. Therefore, this study aimed to bridge the gap by investigating the relationship between some negative media coverage and tax avoidance. In doing so, we sought to examine whether firms alter their tax practices when they are subjected to negative media coverage. Secondly, this study focused on ESG Scores. Our study was unique in that it examined the moderating effect of ESG on the relationship between bad news and tax

avoidance, thereby enriching the existing literature on taxation and CSR. The results of the robustness analyses showed that the media can play a monitoring role in reducing tax avoidance. Based on Agenda-setting Theory, companies will be incentivized to reduce their level of tax avoidance in response to negative media coverage. Finally, the findings highlighted that, according to the Legitimacy Theory, companies often use strong CSR performance to project a positive image and mitigate the negative reputation associated with tax avoidance by disclosing more information about their CSR practices.

The remainder of the paper is structured as follows: Section 2 presents the theoretical background and hypotheses, Section 3 outlines the research methodology, and Section 4 presents the empirical results. Finally, Section 5 concludes the paper.

2. THEORY AND HYPOTHESES

2.1 Agenda-Setting Theory

Legitimacy is achieved through the voluntary adoption of corporate governance practices that help establish ex-ante legitimacy with society. At the same time, the Media Agenda-setting Theory is applied to regain ex-post legitimacy following negative media coverage of the firm (Kent & Zunker, 2013). The Media Agenda-setting Theory suggests a connection between the level of focus the media places on certain topics and the significance these topics hold for the general public (Ader, 1995). In terms of causality, it is thought that greater community interest in a given topic results from increasing media attention. People view the media as influencing societal interests rather than reflecting them (Brown & Deegan 1998).

According to the Agenda-setting Theory (Carroll & McCombs, 2003; McCombs & Shaw, 1972), the media actively shapes public concerns by transferring salience from the media agenda to the public agenda. This means that the media significantly influenced stakeholders' perceptions by drawing attention to specific entities they choose to report on (Deephouse, 2000; Pollock & Rindova, 2003). The media can exert influence by disseminating existing information and conducting independent investigations (Miller, 2006; Kangaretnam et al., 2018). There are several sources of media influence. Mayer (1980) suggested that newspapers have the power to shape or influence how most people perceive the world, determine what they regard as normal or appropriate, and identify the public issues they deem most important. Further research by McCombs (1981) provides evidence supporting the idea that people tend to forget much of what they see or hear on television news and often misinterpret it. He also found that newspapers are more effective at agenda-setting. This perspective was further supported by research conducted by Eyal (1979). Brown and Deegan (1998) used the Media Agenda-setting Theory as an indicator of public concern and linked it to environmental disclosures in annual reports. Consistent with Legitimacy Theory, their study found that management was more likely to enhance environmental disclosure when it perceived that the corporation's legitimacy was at risk due to public concern about the environmental impact of its activities (Lanis & Richardson, 2013). In line with Media Agenda-setting Theory, events such as negative media coverage may elevate the importance of reputational consequences, prompting firms to consider reducing tax avoidance as a legitimizing response when faced with negative publicity (Menicacci & Simoni, 2024). The Media Agenda-setting theory is used to assess whether reductions in tax avoidance are a direct response by management to negative media coverage.

2.2 Legitimacy Theory

Over the past two decades, many studies have been done on CSR disclosure in accounting (Hackston & Milne, 1996; Brown & Deegan, 1998; Wilmshurst & Frost, 2000; Deegan et al., 2002). Gray et al., (1987, p. 4) defined CSR disclosure as “the process of providing information designed to discharge social accountability. Typically, this act would be undertaken by the accountable organisation and thus might include information in the annual report, special publications, or even socially oriented advertising.”

According to the Legitimacy Theory, companies must disclose CSR information, even if they do not fully comply with their social contract with society. If they fail to provide enough information to demonstrate compliance with societal expectations, their legitimacy may be at risk (Newson & Deegan, 2002). To enhance its reputation, the company must disclose CSR information, highlighting its commitment to respecting the environmental, social, and ethical aspects of its activities. In his study of US Steel's yearly reports over about 80 years, Hogner (1982) was one of the first to look at the Legitimacy Theory as a potential justification for CSR disclosure (Lanis & Richardson, 2013). Patten (1992) examined Legitimacy Theory by analyzing the impact of the Exxon Valdez oil spill on environmental disclosures in the annual reports of 21 oil companies excluding Exxon. He identified a significant increase in such disclosures among the sample firms. He discovered a substantial rise in the number of these kinds of disclosures among the sample companies. This was a very important piece of evidence supporting the Legitimacy Theory. This suggests that companies tended to increase their CSR disclosures in response to pressure from certain social groups, to better align with societal expectations and maintain their legitimacy in the eyes of the public.

In terms of taxation, a company adopting an aggressive tax strategy harms society by failing to contribute fairly to public finances. By not paying its fair share of taxes, it undermines the equity of the tax system (Christensen & Murphy, 2004). If a company is found to be explicitly tax aggressive by the tax authority, it can react to this displeasure by acting in line with the Legitimacy Theory and releasing more CSR data (Lanis & Richardson, 2013). Regarding the role that information and disclosure play in the relations between corporations, the government, individuals, and specific social categories, the Legitimacy Theory implies that a company's disclosure of CSR information is based on its tax aggressiveness (Gray et al., 1996). By disclosing additional information about its CSR activities, the company can divert public attention by adjusting societal expectations related to its tax aggressiveness practices (Deegan et al., 2002).

2.3 Hypotheses Development

2.3.1 Relationship between negative media coverage and corporate tax avoidance

The media has recently renewed its focus on tax avoidance by multinational companies. For example, media coverage of Starbucks' tax strategy led the company to eventually pay more taxes in the UK (Kovermann & Velte, 2019). The media has become a crucial channel for the public and government organizations to access information in today's information-driven market environment. As a significant external control force, companies under media scrutiny may be deterred from engaging in aggressive tax practices due to the risk of facing penalties from tax authorities. Negative news about firms can impact their reputation, operations, and financial performance (Qi et al., 2023).

As a result of media scrutiny, listed companies are likely to strengthen their internal controls (Kong et al., 2013), which in turn helps reduce corporate tax avoidance (Yan et al., 2018).

Data from continental Europe has suggested that corporations may feel increased pressure to pay more taxes if aggressive tax strategies are exposed in the media. While many companies in continental Europe have successfully avoided paying taxes for years, the issue has only recently attracted governmental and social attention due to media coverage (Bona-Sánchez, 2023).

In a similar vein, a group of sixteen media outlets revealed in 2018, through the "CumEx Files," suspicions of large-scale tax fraud. BNP Paribas, Société Générale, Natixis, and HSBC were accused of making financial arrangements that allowed foreign pension funds to avoid paying dividend taxes in France.

Kanagaretnam et al., (2018) studied the impact of media on aggressive tax avoidance strategies using a sample of firms from 32 countries around the world. The authors found that media exposure was associated with a lower likelihood of corporate tax aggressiveness. These results suggested that the media can play a monitoring role in mitigating aggressive tax strategies.

Further research has indicated that the impact of media independence on corporate tax aggressiveness was more pronounced in countries with weaker legal frameworks and less transparency in the information environment, suggesting a substitution effect between the legal system's protections and the disciplinary role of the media (Bona-Sánchez, 2023). However, even in countries with a strong legal framework, such as the United Kingdom, the impact of the media remains deterrent. A notable example is the Starbucks scandal, which was heavily criticized by the media for its tax avoidance practices. In response to media pressure and negative publicity, the company committed to paying more taxes in the UK. In the same vein, Lanis and Richardson (2013) reported that a wave of public anger swept over the four major Australian banks following media reports revealing that these banks had engaged in aggressive tax strategies to minimize their fair share of taxes, which could undermine the fairness and equity of the tax system.

In this regard, Allen et al., (2015) discovered that companies with greater analyst coverage were less likely to engage in tax avoidance strategies. According to a recent survey conducted in the USA, business leaders and executives expressed concerns about the reputational damage that corporate tax planning decisions can cause (Bona-Sánchez, 2023).

Given these findings, companies with extensive media coverage are more likely to be under the spotlight and subject to intense stakeholder scrutiny.

Firms are therefore motivated to avoid adopting aggressive tax strategies to preserve their reputation and image. Based on data from China's A-share listed companies between 2018 and 2021, the results of a study by Qi et al., (2023) suggested that negative media attention can significantly reduce tax avoidance by enhancing a company's internal controls. Similarly, the findings of Menicacci and Simoni (2024) indicated that negative media attention on ESG matters was negatively correlated with tax avoidance, implying that the media can serve as an external oversight mechanism for corporate taxation. Building on these findings and based on the Agenda-setting Theory, which suggests that the media can influence the public by exposing negative facts about certain practices, it appears that companies, faced with negative media coverage, were compelled to reduce their tax aggressiveness, as it harms the fairness of the tax system. We formulated our first hypothesis as follows:

H1: Negative media attention regarding taxes reduces tax avoidance.

2.3.4 Media and tax avoidance: the moderating role of ESG

Corporate taxes are associated with public concern when their payment has societal consequences, rather than simply being an operating cost for the corporation (Lanis and Richardson, 2012). Corporate taxes have communal and societal implications because they play a crucial role in financing public goods (Freedman, 2003; Landolf, 2006; Sikka, 2010). The extent to which a corporation pays its fair share of taxes significantly impacts the society in which it operates and is a major source of public concern (Landolf, 2006; Williams, 2007; Sikka, 2010). As a result, corporate tax aggressiveness is perceived as socially irresponsible and illegitimate by the general public. Such tax practices raise significant public concern and can ultimately undermine the corporation's legitimacy, potentially jeopardizing its continued existence (Lanis & Richardson, 2012).

Previous studies have shown that companies engaging in CSR tend to adopt less aggressive tax strategies (Lanis & Richardson, 2012; Watson, 2015). CSR reflects the belief in following the "right" course of action, and therefore, a more socially responsible corporation is less likely to engage in tax avoidance that deprives society of valuable resources (Yoon et al., 2021). Similarly, López-González et al., (2019) found a negative relationship between a company's social and environmental performance and tax avoidance, indicating that firms with strong social responsibility are less likely to engage in tax avoidance practices. However, other studies suggested that companies with weaker CSR policies may be less likely to avoid taxes (Godfrey, 2005). According to the literature, socially irresponsible firms are often reluctant to engage in tax avoidance, as these additional tax management activities can significantly damage their social reputations.

On the other hand, some studies indicated a positive relationship between CSR and tax avoidance (Hoi et al., 2013; Preuss, 2010; Sikka, 2013). According to the Legitimacy Theory, aggressive tax avoidance is viewed as irresponsible. Therefore, tax-aggressive companies may use CSR as a strategic tool to deflect attention from external stakeholders while simultaneously maintaining their legitimacy and minimizing the negative effects of their tax practices.

A study conducted by Sikka (2010, 2013) examined several well-known large firms, such as Enron, Worldcom, KPMG, and Walmart, and highlighted the significant gap between these firms' stated commitment to socially responsible operations and their internal management decisions aimed at maximizing shareholder profits while avoiding taxes. This "hypocrisy" involves firms presenting themselves as defenders of social, ethical, and environmental causes while simultaneously avoiding their tax obligations (Abid & Dammak, 2021).

Davis et al., (2016) also demonstrated a positive association. According to their research, firms with a higher commitment to CSR viewed CSR and paying taxes as substitutes. This substitution occurs within the context of internal risk management, where managing reputational risk is crucial in deciding whether or not to engage in CSR and tax avoidance. Positive CSR initiatives can help reduce the reputational risks associated with negative events involving the firm (Abdelmoula et al., 2022).

ESG is part of CSR. It is a more specific and measurable approach that focuses on three aspects: Environmental, Social, and Governance. In 2004, the United Nations Environment Programme introduced the concept of ESG, encouraging businesses to prioritize both social and economic benefits. ESG is an approach to sustainable development that emphasizes non-financial factors, such as corporate environmental responsibility (E), social responsibility (S), and corporate governance (G). ESG is an

extension of CSR, focusing on corporate business activities and strategic growth (Jiang et al., 2024). Adopting ESG principles shifts a firm's focus from profit maximization to balancing economic and social objectives, potentially leading to a shift in strategic decision-making.

By integrating ESG as a moderating variable, we will be able to explore whether and how ESG principles influenced the relationship between the impact of negative media coverage and tax aggressiveness. This will allow us to analyze whether companies adopting ESG practices are more likely to reduce their tax aggressiveness in response to media pressure, compared to those that do not prioritize these practices. Alternatively, these companies might adopt aggressive tax practices to financially compensate for the costs associated with their CSR actions. Public concerns are raised when a firm engages in overt tax aggression because it is seen as not fulfilling social norms that require it to pay its fair share of taxes (Christensen & Murphy, 2004; Landolf, 2006; Williams, 2007; Landolf & Symons, 2008). The Legitimacy Theory implies that a tax-aggressive company will reveal more details about its CSR initiatives in several domains to allay public worries, demonstrate that it is meeting its responsibilities to the community, or change public perceptions of its operations (Deegan et al., 2002).

Recent research suggests that negative media attention regarding ESG matters serves as an external oversight mechanism for a company's ESG practices. For example, it has been linked to a reduction in earnings manipulation (Chen et al., 2020) and an increase in ESG disclosures (Rupley et al., 2012). One area of contention within ESG is corporate taxation, particularly concerning tax avoidance. How companies manage their tax obligations is now seen not only as a matter of regulatory compliance but also as a reflection of their commitment to societal responsibility, which, in turn, enhances their legitimacy in the eyes of stakeholders (Menicacci and Simoni, 2024).

However, Lanis and Richardson (2013) found a positive association between CSR disclosure and tax avoidance, thus confirming the Legitimacy Theory in the context of corporate tax avoidance. Additionally, Akamli et al., (2024) found that firms with higher tax avoidance were associated with better ESG performance. Based on this Theory, we formulated the following hypothesis:

H2: ESG scores moderate the effect of negative media coverage on tax avoidance.

3. METHODOLOGY

3.1 Sample

Our sample comprised French companies listed on the SBF 120 index over eight years (2010–2023). The SBF 120 was chosen because it is a key indicator of the overall performance of the French stock market. These companies represented a significant portion of the French economy and spanned various sectors, including industry, technology, consumer goods, and others. We excluded financial firms due to significant differences in accounting standards and taxation practices. Additionally, we excluded companies with negative pre-tax income for the entire period, as they would not have paid taxes, as well as those with effective tax rates (ETRs) less than one. Firms with missing or insufficient data were also excluded. The data were collected from the Compustat database.

3.2 Model

To test the relationship between media attention and tax avoidance, as well as the effect of ESG on this relationship for listed SBF 120 companies, we adopted the following four models.

Our first model, which tested the first hypothesis, was as follows:

$$ETR_{it} = \beta_0 + \beta_1 MEDIA_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 PPEN_{it} + \beta_5 INV_{it} + \beta_6 SIZE_{it} + \varepsilon_{it} \quad (\text{Model 1})$$

The second model, which tested Hypothesis 2, was as follows:

$$ETR_{it} = \beta_0 + \beta_1 MEDIA_{it} + \beta_2 ESGS_{it} + \beta_3 Media_{it} * ESGS_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 PPEN_{it} + \beta_7 INV_{it} + \beta_6 SIZE_{it} + \varepsilon_{it} \quad (\text{Model 2})$$

The following two models were used for the robustness analysis:

$$\text{Cash ETR}_{it} = \beta_0 + \beta_1 MEDIA_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 PPEN_{it} + \beta_5 INV_{it} + \beta_6 SIZE_{it} + \varepsilon_{it} \quad (\text{Model 3})$$

$$\text{Cash ETR}_{it} = \beta_0 + \beta_1 MEDIA_{it} + \beta_2 ESGS_{it} + \beta_3 Media_{it} * ESGS_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 PPEN_{it} + \beta_7 INV_{it} + \beta_6 SIZE_{it} + \varepsilon_{it} \quad (\text{Model 4})$$

3.3 Dependent Variable

Tax avoidance was measured through the effective tax rate (ETR), which was calculated *by dividing total tax expense by pre-tax income*. The ETR reflects a company's ability to optimize its tax burden. It is determined by the ratio of the sum of current and deferred taxes recognized in a company's consolidated financial statements to the pre-tax accounting profit. This ratio accounts for taxes related to all operations during the financial year that may have a future impact, not just the taxes for the current period (Chadefaux & Rossignol, 2006). According to Gebert (2017), if the ETR is lower than the statutory tax rate, it could indicate tax avoidance. This ratio helps determine whether the company has used all possible means to reduce its tax liabilities (Menchaoui and Hassouna, 2022). Previous research has suggested that ETRs typically fall within the 0-1 range (Chen *et al.*, 2010; Lanis & Richardson, 2012; Lanis *et al.*, 2017). In addition to the standard ETR, we also used Cash ETR as a second proxy for tax avoidance. Cash ETR was measured as the ratio of cash taxes paid to pre-tax income. It represented the actual cash payments for income taxes made by the company during the period.

3.4 Independent Variables

Media attention was measured by the number of controversies published in the media related to tax fraud, parallel imports, or money laundering. This variable was provided by Thomson Reuters in the ASSET4 database.

The ESG score is an overall company rating based on self-reported information across the environmental, social, and corporate governance pillars. This score is provided by Thomson Reuters in the ASSET4 database.

The environmental score evaluates a company's impact on natural systems (air, land, water, ecosystems) and its ability to manage environmental risks and opportunities for long-term shareholder value. The social score measures the company's ability to build trust and loyalty among employees, customers, and society, influencing its reputation and capacity for long-term value creation. The corporate governance score assesses the company's governance practices, ensuring its board and management act in shareholders' best interests, fostering long-term value through effective management practices (Zeng, 2018).

Firms received scores of between 0 and 100 for their environmental and social performance, with higher scores indicating better performance (Luo *et al.*, 2015; El Ghouli *et al.*, 2017; Salhi *et al.*, 2019).

3.5 Control Variables

To control for other factors influencing tax avoidance, we included several control variables commonly used in the literature (Chen *et al.*, 2010; Dyreng *et al.*, 2008; Lanis and Richardson, 2012; Menchaoui & Hassouna, 2022).

Leverage (LEV), calculated as long-term debt over total assets, controls for the tax efficiency of highly leveraged firms. **Return on assets (ROA)**, pre-tax income over total assets, captured overall firm performance, which may influence tax behavior.

Capital intensity (PPEN) and **inventory intensity (INV)** were also considered: PPEN tended to lower effective tax rates due to depreciation benefits, while INV was expected to increase tax rates as it substituted for capital assets (Taylor & Richardson, 2012).

Firm size, measured by the natural log of total assets, was included because larger firms were generally more likely to engage in aggressive tax avoidance.

4. EMPIRICAL RESULTS

4.1 Descriptive Statistics

The descriptive statistics for the variables used in the model are reported in Table 1. This table provides the mean, minimum, maximum, and standard deviation for the dependent variable (tax avoidance), independent variables (Media, ESG score), and control variables (Leverage, ROA, Capital Intensity, Inventory Intensity, and Size).

Table 1. Descriptive Statistics

Variable	Mean	Standard-Deviation	Min	Median	Max
ETR	0.28	0.12	0.01	0.28	0.78
MEDIA	0.02	0.25	0	0	5
ESG	0.67	0.16	0.10	0.69	0.94
LEV	0.21	0.14	0.00	0.19	0.64

Variable	Mean	Standard-Deviation	Min	Median	Max
ROA	0.07	0.06	-0.23	0.06	0.65
PPEN	0.25	0.23	0.01	0.17	0.96
INV	0.09	0.10	0.01	0.07	0.58
SIZE	16.28	1.32	12.42	16.18	19.45

As shown in Table 1 SBF 120 non-financial companies had an average effective tax rate (ETR) of 28%, with a standard deviation of 12%. The ETR ranged from a minimum of 1% to a maximum of 78%, reflecting some companies' aggressive tax strategies. These firms reported an average of 0.02 controversies related to tax fraud, parallel imports, or money laundering. The average ESG score for these companies was 67%, indicating a positive trend toward sustainability, with scores ranging from 1% to 94%. Control variables for the companies included average values of 0.21 for leverage (LEV), 0.07 for return on assets (ROA), 0.25 for capital intensity (CINT), 0.09 for investment intensity (INVINT), and 16.28 for company size (SIZE).

We computed Pearson correlation coefficients to assess potential multicollinearity issues between the independent and control variables. Table 2 presents the correlation matrix, showing that all correlation coefficients were below 0.8 (Kennedy, 1985). The VIF values ranged from 1.01 to 1.87, which was well below the threshold of 10, confirming the absence of multicollinearity. The analysis of the correlation between the independent variable and the effective tax rate (ETR) revealed a positive correlation between MEDIA and ETR at the 10% level.

Table 2. Correlation matrix

	ETR	MEDIA	LEV	ROA	PPEN	INV	SIZE	VIF
ETR	1							
MEDIA	0.075**	1						1.01
LEV	-0.085**	0.008	1					1.78
ROA	-0.077**	0.061*	-0.378***	1				1.38
PPEN	-0.258***	-0.017	0.485***	-0.130***	1			1.32
INV	0.012	0.021	-0.438***	0.171***	-0.180***	1		1.25
SIZE	-0.008	0.054	0.134***	-0.392***	0.057	-0.120***	1	1.20

4.2 Regression Results

Table 3. Estimation outcomes

VARIABLES	(1)	(2)	(3)
	ETR	ETR	ETR
Media	0.0218 (0.0152)	-0.163 (0.231)	-0.0545 (0.296)
ESGScore		-0.0160 (0.0235)	
MediaXESGScore		0.239 (0.298)	
ESGE			0.00709 (0.0233)
ESGS			0.0250 (0.0217)
ESGG			-0.0375** (0.0149)
ESGEXmedia			-0.0521 (0.361)
ESGSXmedia			-0.118 (0.199)
ESGGXmedia			0.452*** (0.129)
LEV	-0.0137 (0.0297)	-0.0163 (0.0298)	-0.0115 (0.0302)
ROA	-0.340***	-0.338***	-0.345***

VARIABLES	(1)	(2)	(3)
	ETR	ETR	ETR
	(0.0662)	(0.0663)	(0.0661)
PPEN	-0.0276	-0.0271	-0.0208
	(0.0273)	(0.0274)	(0.0274)
INV	-0.0567	-0.0622	-0.0652
	(0.0441)	(0.0451)	(0.0464)
SIZE	-0.00665**	-0.00548*	-0.00654**
	(0.00270)	(0.00320)	(0.00323)
Constant	0.412***	0.405***	0.411***
	(0.0512)	(0.0522)	(0.0515)
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	832	832	832
Adj R-squared	26.66%	26.55%	27.38%
Wald chi2	286.24	287.38	349.82
Prob > chi2	0.0000	0.0000	0.0000

Notes: This table reports the baseline results of the regression of two models. Coefficient estimates are presented with the z-statistics reported in parentheses. All models include year- and industry-fixed effects. ***, **, and * denotes significant at the 1, 5, and 10% levels, respectively.

The results of testing the two hypotheses are presented in Table 4. We did not find a significant relationship between media negative coverage and tax avoidance. This result refuted our first hypothesis. Recall that we had assumed a negative impact of the media effect on tax avoidance. To test our second hypothesis, we ran a second regression by introducing the ESG score as a moderating variable to represent the interaction between media coverage and tax avoidance. Initially, no significant relationship was found between these variables. However, by breaking down the ESG score into sub-scores (environmental ESG, social ESG, and governance ESG), we found a significant relationship between governance ESG and tax avoidance. This relationship reversed when governance ESG was combined with negative media coverage. This reversal could be explained by the fact that companies with a strong governance ESG score, but subject to negative media coverage, may have adopted less aggressive tax practices to protect and enhance their public image. This result was consistent with the Agenda-setting Theory, which suggested that negative

media attention can damage a company's reputation, increasing pressure on the firm to demonstrate responsibility to its stakeholders. This pressure forced companies to restore their legitimacy by adopting less aggressive tax strategies. To regain legitimacy, companies must act as "good citizens" and rebuild trust with stakeholders, which limits their involvement in aggressive tax avoidance, as negative publicity could threaten their standing (Menicacci & Simoni, 2024).

The control variable ROA showed a significant positive relationship with tax avoidance, suggesting that more profitable companies were more likely to engage in tax avoidance activities. This result aligned with the findings of Richardson and Lanis (2007). Badertscher *et al.*, (2013) also observed that profitable companies were more likely to engage in tax avoidance due to the greater incentives available to them. We also found that large companies were more inclined to engage in tax avoidance than small firms. This was because large companies had the financial resources to hire skilled experts who can advise them on optimizing their tax strategies (Khlifi & Zouari, 2022; Chouaibi *et al.*, 2022). The coefficients for LEV, PPEN, and INV were not significant.

4.3 Robustness Analysis

Table 4. Robustness analysis

VARIABLES	(1)	(2)	(3)
	CashETR	CashETR	CashETR
Media	0.0485*	1.061**	1.243***
	(0.0186)	(0.500)	(0.478)
ESGScore		-0.0243	
		(0.0274)	
MediaXESGScore		-1.284**	
		(0.636)	
ESGE			0.0252
			(0.0307)
ESGS			0.000950
			(0.0278)
ESGG			-0.0422**
			(0.0207)
ESGEXmedia			(0.431)

VARIABLES	(1)	(2)	(3)
	CashETR	CashETR	CashETR
			-0.646**
ESGSXmedia			(0.322)
			-0.116
ESGGXmedia			(0.217)
LEV	0.0447	0.0172	0.00945
	(0.0335)	(0.0378)	(0.0427)
ROA	-0.513***	-0.574***	-0.651***
	(0.0667)	(0.0744)	(0.0839)
PPEN	-0.112***	-0.122***	-0.128***
	(0.0270)	(0.0310)	(0.0351)
INV	-0.0536	-0.0552	-0.0636
	(0.0501)	(0.0602)	(0.0721)
SIZE	-0.00719***	-0.00717*	-0.0100**
	(0.00259)	(0.00374)	(0.00438)
Constant	0.475***	0.504***	0.548***
	(0.0534)	(0.0635)	(0.0725)
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	832	832	832
Adj R-squared	21.76%	22.71%	21.90%
Wald chi2	789.55	651.80	587.23
Prob > chi2	0.0000	0.0000	0.0000

VARIABLES	(1)	(2)	(3)
	CashETR	CashETR	CashETR
Notes: This table reports the additional regression for two models. Cash ETR is cash taxation scaled by pre-tax income. Coefficient estimates are presented with the z-statistics reported in parentheses. All models include year- and industry-fixed effects. ***, **, and * denotes significant at the 1, 5, and 10% levels, respectively.			

The robustness test was conducted by changing the tax avoidance measure to further support our main results. We used Cash ETR as a second measure of tax avoidance. Cash ETR was calculated as cash taxes paid divided by pre-tax income. Table 5 presents the results of regressions conducted with Cash ETR as the tax avoidance measure.

Contrary to the results found in the first analysis, our first hypothesis was validated here, as we observed a significantly negative relationship between negative media coverage and tax avoidance. This difference could be explained by the fact that the Cash ETR was more sensitive to external factors, such as media coverage, which had a quicker impact on tax strategy decisions. In contrast, the ETR, which included both payable and deferred taxes, was less responsive to immediate fluctuations caused by media coverage. According to Qi *et al.*, (2023), media coverage can significantly reduce tax avoidance by raising internal control standards within firms. Kneafsey and Regan (2020) also highlighted that media framing had a significant impact on public opinion. Negative media coverage can affect a company's reputation, operations, and finances, prompting firms to reduce their tax avoidance practices (Yan *et al.*, 2018). Our results aligned with those of Menicacci and Simoni (2024), who found that companies exposed to negative media coverage regarding ESG issues reduced their tax avoidance practices due to increased shareholder scrutiny from media pressure. Similarly, Kanagaretnam *et al.*, (2018) found that media independence was associated with a lower likelihood of tax aggressiveness. Our results were consistent with the Agenda-setting Theory, which suggested that negative media coverage may prompt companies to reduce their tax avoidance strategies as a legitimizing response to unfavorable publicity.

To test the second hypothesis and integrate ESG as a moderating variable, the results showed that, in the face of negative media coverage, companies with a high ESG score tended to adopt aggressive tax strategies. At first glance, these results may seem counterintuitive. However, upon further analysis, it became clear that companies exposed to media attacks may be driven to adopt more aggressive tax strategies to minimize immediate costs and maintain their profitability. For example, a company might choose to save on taxes to free up funds to strengthen its ESG initiatives and thus preserve or improve its reputation. By dividing the ESG score into sub-scores, we observed the same results with the ESG Social sub-score, which confirmed our hypothesis. These results aligned with those found by Davis *et al.*, (2016), who argued that companies with a strong commitment to CSR view CSR and tax payments as substitutes. Indeed, companies that invested heavily in CSR may see this as an alternative to paying taxes. They thus sought to balance financial and reputational risks (Abdelmoula *et al.*, 2022). Based on the Legitimacy Theory, a company's disclosure of CSR information depends on its tax aggressiveness (Lanis & Richardson, 2013). Companies relied on disclosure of their ESG performance to build legitimacy in the eyes of the public and to divert attention from their engagement in aggressive tax strategies, in line with legitimacy theory.

The same results were found using ROA and SIZE as control variables. However, we also observed a positive correlation between PPEN and tax avoidance. PPEN was negatively correlated with ETRs due to the effect of accelerated depreciation on the useful life of assets (Taylor & Richardson, 2012).

5. CONCLUSION

Negative media coverage has attracted the attention of several researchers in recent years due to the role played by the media as a monitoring mechanism, capable of encouraging companies to adopt responsible behaviors. Using the Agenda-setting Theory and the Legitimacy Theory, we examined whether negative media coverage can prompt companies to reduce their aggressive tax strategies. We also aimed to study ESG as a moderating variable to see if companies with a high ESG score, following negative media coverage, were more or less likely to adopt aggressive tax strategies. Our research differed from existing studies (Graham *et al.*, 2014; Gallemore *et al.*, 2014; Chen *et al.*, 2019; and Menicacci and Simoni, 2024) in that it integrated ESG as a moderating variable to examine the behavior of companies with a high ESG score in response to negative media coverage.

Using 832 firm-year observations from 2010 to 2023, the results of our robustness analysis suggested that media attention had a significant deterrent effect on tax avoidance. Supporting the Agenda-setting theory, the media played a key role in highlighting the importance of certain issues due to their increasing influence and position as a primary source of information (Culpepper, 2015). As such, the media can have a significant impact on the reputation of companies. Some research emphasized the role of the media in disciplining firms by discouraging aggressive tax avoidance behavior (Kanagaretnam *et al.*, 2018). Moreover, we observed different results when integrating ESG as a moderating variable. Initially, the results of our first analysis showed a positive relationship between ESG governance and ETR. However, after conducting a robustness analysis, we found a negative relationship between ESG social and Cash ETR. These results can be explained by the nature of the two dimensions of ESG. ESG governance refers to how a company is managed, its decision-making processes, transparency, and governance practices. A positive relationship between ESG governance and the effective tax rate (ETR) suggests that companies with strong governance are more likely to pay their taxes transparently and avoid aggressive tax strategies.

This may be due to these companies placing great importance on their reputation and seeking to avoid controversies related to tax avoidance, particularly under the influence of negative media coverage. In contrast, ESG social encompasses aspects related to employees, community relations, and social responsibility. A negative relationship between ESG social and Cash ETR could be explained by the fact that these companies, while focusing on costly social initiatives, may be more inclined to adopt aggressive tax strategies to fund these projects. As a result, they may seek to minimize their cash tax payments to allocate more resources to their social actions.

These findings are particularly relevant for companies, management, and regulatory bodies. Although ESG criteria are well embedded in the culture of French companies, as France has made significant progress with regulations requiring companies to integrate ESG principles into their annual reports (such as the 2010 Grenelle 2 Law, the 2017 Duty of Vigilance Law, and the 2019 PACTE Law), several companies with high ESG scores may use them to mask their involvement in aggressive tax strategies. New regulations could compel companies and their leaders to integrate tax issues into their CSR approach. A detailed tax

disclosure would make it easier for auditors to detect aggressive tax strategies. Taxation should be included among the economic criteria in corporate CSR reporting.

This study acknowledges the limitation of being based on a sample of publicly listed companies in France. Conducting similar research in other countries or through cross-country comparisons would provide a more comprehensive understanding of the relationships examined.

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