Ethics and taxation: A cross-national comparison of UK and Turkish firms

Mehmet Demirbag a,*, Jane Frecknall-Hughes b,1, Keith W. Glaister a,2, Ekrem Tatoglu c,3

a Management School, University of Sheffield, 9 Mappin Street, Sheffield, S1 4DT, United Kingdom
b The Open University Law School, Walton Hall, Milton Keynes, MK7 6AA, United Kingdom
c Faculty of Economics and Administrative Sciences, Bahcesehir University, Besiktas, Istanbul 34349, Turkey

A R T I C L E   I N F O

Article history:
Received 4 May 2011
Received in revised form 7 January 2012
Accepted 24 February 2012
Available online 2 April 2012

Keywords:
Cross-national comparison
Ethics
Taxation
Turkey
UK

A B S T R A C T

This paper investigates responses to tax related ethical issues facing firms, an area where there has been little prior research. As perceptions may be determined by response to different legal systems and regulations, we examine responses to a series of ethical questions posed to two groups of tax practitioners, one group employed in UK firms and another group employed in Turkish firms. This facilitates both an examination of responses from within each country and a cross-national comparison of ethics and taxation. Although there is a similarity of perception of the importance of a number of taxation related ethical issues between UK practitioners and Turkish practitioners, there are also several statistically significant differences between the two groups. The paper makes a significant contribution to the literature through obtaining and analysing data from tax professionals in the UK and Turkey to provide a cross-national study of corporate tax practice and ethics. The paper is novel in that no prior studies have reported cross-national studies that have examined tax issues related to firms.

© 2012 Elsevier Ltd. All rights reserved.

1. Introduction

Ethical issues related to corporate tax decisions have been under-researched in the business and management literature. This is surprising because ethical dilemmas involving tax issues in particular were identified some time ago by members of the American Institute of Certified Public Accountants as presenting the most difficult problem for them (Finn, Chonko, & Hunt, 1988, pp. 607–609). More recently there have been high profile scandals, such as the KPMG tax shelter fraud case (Herman, 2004; Johnston, 2004; Scannell, 2005), which have highlighted problems caused by differences in ethical judgements among corporate decision makers. Nevertheless, studies which examine systematically tax decision making processes are rare (see Glaister & Frecknall-Hughes, 2008), and, to the best of our knowledge, there are no prior studies which examine such issues from a cross-national perspective. The purpose of this paper is to make a contribution by examining tax-related ethical issues facing firms in two different national contexts. The study examines responses to a series of ethical tax related questions posed to a sample of UK and Turkish corporate respondents. These two countries were chosen as they provide good examples of legal and commercial frameworks and institutions that are at different stages of development, with the UK being a mature market economy and Turkey being an emerging one. In addition, the systems of each country are

* Corresponding author. Tel.: +44 (0) 114 2223441.
E-mail addresses: m.demirbag@sheffield.ac.uk (M. Demirbag), j.frecknall-hughes@open.ac.uk (J. Frecknall-Hughes), k.glaister@sheffield.ac.uk (K.W. Glaister), ekrem.tatoglu@bahcesehir.edu.tr (E. Tatoglu).
1 Tel.: +44 (0) 1908 332565.
2 Tel.: +44 (0) 114 2223362.
3 Tel.: +90 (0) 212 3810459.

0969-5931/$ – see front matter © 2012 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ibusrev.2012.02.007
well known to the authors. The study serves to facilitate an examination of responses from within each country, but, more importantly, it allows a cross-national comparison of ethics and taxation, and makes a significant contribution in the provision of cross-country information on company tax matters.

Processes and procedures to determine a company’s tax liabilities are imposed by law. Where taxpayers (corporate or otherwise) wish to pay less than a government requires, a conflict arises, long recognised, between the right of citizens to own property (including goods and money) which militates against the right of government to allow that right of ownership and/or to take away that property in the form of taxation (Locke, 1690). This conflict manifests itself as tax evasion, which is illegal, or tax avoidance, which is legal. Although tax avoidance is legal, it is often regarded as unethical, for example, by the UK Revenue authorities, and is something of which firms (especially multinational enterprises (MNEs)) are often accused (Christensen & Kapoor, 2004; Christensen & Murphy, 2004; Freedman, 2004; Mitchell & Sikka, 2005; Mitchell, Sikka, Christensen, Morris, & Filling, 2002; Reed, 2007). Given that tax evasion is illegal, this paper focuses on the area of tax avoidance, where there is no legal certainty to determine where the line is drawn between what is or is not acceptable.

Considering corporate taxes, a particular issue that has attracted significant criticism is that of ‘unacceptable tax avoidance’ (Wyman, 1997, p. 3). This is a term that tax authorities apply to the use of specially developed schemes, often aggressive in nature, which either stretch the word of the law beyond its intention or manipulate events/facts so that the law applies (in a way not intended) to artificially created truths, events or circumstances. The suggestion implicit in the use of the word ‘unacceptable’ compounds the idea that such tax avoidance activity is unethical (see Freedman, 2004) as it reduces the overall tax revenue for governments and thus the funds available for spending for societal purposes. Although tax avoidance remains a legal activity, because of the link with unacceptable behaviour it has become tainted by association, which is arguably deliberate on the part of tax authorities.

The situation is made more complex in that views have often differed as to what constitutes tax avoidance, and such views may change over time. The meaning of ‘unacceptable avoidance’ remains a hotly debated topic. One view is that any decision “comes down to a matter of personal judgment. One man’s idea of acceptable tax planning is undoubtedly another man’s idea of criminally subversive activity” (Gillett, 1999, p. 1). Others think that there is no problem here at all and that “tax avoidance is a conceptual anomaly that exists in the mind of those whose sense of morality is violated by certain effective tax practices”, occurring “where legislative intention and policy miscarried and failed to anticipate and reach the transaction under consideration” (Grow, 2004, p. 415).

For any study examining the behaviour of firms in relation to taxation, it is therefore essential to establish how important obeying the law is, and whether it is acceptable to challenge the law by use of avoidance schemes which tax authorities might deem inappropriate, and also whether, as a corollary, firms will be concerned about the impact of their taxation activities on their reputation.

The rest of the paper is set out as follows. Section 2 reviews literature relating to differences between Turkey and the UK in respect of issues relevant to tax. The section then considers ethics and tax issues affecting firms, in order to provide background to the study and to help generate the study’s basic research questions. Research methods are in Section 3. Section 4 provides findings and discussion. The conclusion is in Section 5.

2. Review of the literature

2.1. Turkey and the UK – issues relevant to tax

Developments regarding taxation in emerging countries are often unclear because the relevant academic literature is relatively scarce. This applies to the emerging economy of Turkey, which may be contrasted to the UK, a mature market economy that possesses one of the most voluminous and sophisticated tax codes in the world. Typically, emerging economies have less well defined tax laws (Demir, 2005), and this appears to be the situation in Turkey. Although Turkey has many of the same underlying concepts of tax as the UK (for example, a system of direct taxation of income, corporate profits and capital gains, as well as indirect taxation), there is much less depth, sophistication and complexity in terms of law. Also, Turkish law has a reputation for loopholes (World Bank, 2008), which can be exploited.4 Where law is so characterised, it is often easier to find ways of ‘getting round’ it, which are less likely to be challenged by government authorities, and Turkey is known for the use of avoidance mechanisms. Mengüç (1998) and Ekin and Tezölmê (1999), both cited by Hisrich, Bucar, and Oztark (2003, p. 8), comment on a range of ethical problems being reported in Turkey, including “bribery, tax evasion, insider dealing and deceptive practices”, which is supported by the findings of Rawwas, Swaidan, and Oyman (2005). In contrast, however, McGee and Tyler (2006) suggest that there is generally an aversion to tax evasion in Turkey.

Business structures in Turkey also tend to be different from those of the UK, dominated by concentrated national family-based ownership, not globally operating firms or MNEs (Ararat & Uğur, 2003, pp. 59, 62). Even listed companies in Turkey are often characterised by having a holding company controlled by a family. Turkey is also very different from the UK in terms of its religious and administrative heritage and historical development (Glaister, Dincer, Tatoglu, & Demirbag, 2009). We posit that key issues regarding different perceptions of taxation related ethical issues between the UK and Turkey will be

---

4 There is no scope in this paper for a detailed overview of the Turkish and UK tax systems, especially given the voluminous nature of UK tax statutes, which run to many thousands of pages. However, a general appreciation of the two systems can be obtained from the overview entitled ‘Turkish Taxation System’ provided by the Turkish Revenue authority and the IFS Publication ‘A Survey of UK Tax System’ by Adam and Browne (2011).
associated with such factors as the different stages in the development of the economy (the UK is an advanced market economy, Turkey is an emerging economy), different business structures (fewer global firms and more smaller family businesses in Turkey compared with the UK), a less visible use of tax advisers in Turkey compared with the UK, and different tax emphasis, seen, for example, in the greater use of tax breaks and incentives to encourage business development, especially in particular areas or industries, for which companies may actively lobby in Turkey compared with the UK. The UK and Turkey in this study thus act respectively as proxies for a typical well developed economy and a developing one. There may be the same ethical ‘ingredients’ in both countries, but they could logically be expected to carry different weightings and may show tax beliefs in sharp contrast, or even in conflict. If this is so, then it is valuable to know, for example, for supranational bodies such as the World Trade Organization or the Organisation for Economic Cooperation and Development in their work towards harmonisation of tax systems and so on.

2.2. Ethics and tax issues affecting firms

In the context of taxation, ‘ethics’ is a term most commonly used to mean a set of practices demonstrating the application of generally accepted underlying values or principles—in other words ‘normative ethics’, which define what we ought to do or should do. Song and Yarbrough (1978, p. 443) describe this as “the norms of behaviour governing citizens as taxpayers in their relationship with the government”. However, a formal ethical framework for taxation based on such norms or theoretical philosophical principles has never been developed (though see Murphy, 2007). The only formal framework that exists is law, which should, however, reflect underpinning beliefs of what is acceptable and what is not. Tax law is not developed in accordance with specific philosophical principles, and although written, may not be able to cope with all possible situations and may be subject to interpretation (philosophical or otherwise) and differ between different jurisdictions.

Taxation affects many different groups of people. First there are taxpayers, their agents (tax advisers) and government, who are primary persons/entities involved in calculation, payment and collection of sums due. There is a further range of stakeholders, especially from the perspective of firms, whose interest lies in the effects, on them personally and society more widely, in terms of tax collected and the purposes to which it is put. Tax avoidance therefore can deprive certain stakeholders of societal benefits, and in this context tax avoidance becomes a corporate social responsibility issue. Typical stakeholders are shareholders, employees, customers, suppliers, regulatory authorities, the public at large, etc., who will be likely to approach the subject from different, often conflicting, ethical perspectives, philosophies, beliefs, educational background and so on. What one group of stakeholders find acceptable might not be acceptable to others. A programme of job redundancies may be acceptable to shareholders if it cuts costs and increases profits, but employees, the government and public at large may find it unacceptable. If undertaken other than to ensure a firm’s survival, such a programme could be considered unethical.

There is a significant body of academic literature which has examined why some individuals are tax compliant, and so behave ethically, and why some are not. Running counter to the idea that tax is unwelcome and that people are unwilling to pay, Alm and Torgler (2006, p. 225) (following Frey, 1997) suggest that there is an “intrinsic motivation for individuals to pay tax”, even where evasion would be unlikely to be detected, which they term “tax morale” and which is “likely to be influenced by such factors as perceptions of fairness, trust in the institutions of government, the nature of fiscal exchange between taxpayers and government, and a range of individual characteristics.”

Alm & Torgler, 2006, p. 228

The idea of willing compliance with tax regulation, as evidenced by the studies of tax morale contrasts, however, with earlier, US studies, which suggest that taxpayers comply because they fear probable detection and severe penalties – referred to as deterrence theory (Allingham & Sandmo, 1972; Cowell, 1990; Grasmick & Green, 1980; Tittle, 1980). A significant amount of academic literature on individual tax compliance has also centred on particular factors, including non-economic ones, which affect the compliance behaviour of individuals (Hite & McGill, 1992, p. 389). Again, this literature comprises predominantly American studies (for example, Fischer, Wartick, & Mark, 1992; Jackson & Milliron, 1986; Roth, Scholtz, & Witte, 1989; Weigel, Hessing, & Elfers, 1987). Tax compliance is considered the ethical ‘thing to do’. This is supported by a large number of studies (see, for example, Alm, McClelland, & Schulze, 1999;

While considerable research has been reported on individual tax compliance, as is evidenced above, there is little by way of cross-country comparison. Alm, Sanchez, and De Juan (1995) look at Spanish and American students in a laboratory experiment and Bobek, Roberts, and Sweeney (2007) consider evidence from Australia, the US and Singapore, but such studies are rare, other than those on tax morale (for example, Alm & Torgler, 2006). Studies which consider how companies comply with tax law are conspicuously absent, though there is one UK based study on corporate tax risk and avoidance (Freedman, Loomer, & Vella, 2009). There is no work of which we are aware that considers cross-country comparisons in terms of companies.

The key strategic decisions of corporate entities are often influenced by their tax implications. Firms with active business operations in more than one country, in particular, may be presumed to undertake their business transactions in accordance with differences in international tax rules/rates. Hines (1999, p. 308) notes that international tax rules and the tax laws of other countries have the potential to influence a wide range of corporate and individual behaviour, most obviously the location and scope of international business activity, but also domestic operations that are connected to foreign operations through various international tax provisions.

There is a substantial literature that is devoted to measuring behavioural responses to international tax rules which shows, for instance, that international taxation significantly influences the location of foreign direct investment (FDI), corporate borrowing, transfer pricing, dividend and royalty payments, and research and development (R&D) performance (Hines, 1999). For example, the pre-tax profitability of foreign affiliates is correlated negatively with host country tax rates (Hines & Rice, 1994), “which is suggestive of tax motivated transfer pricing and unlikely to be the outcome of ordinary investment responses to tax rate differences” (Hines, 2001, p. 3).

At the same time practitioners are increasingly calling for companies to develop coherent tax strategies (Fay, 2004; McCormick, 2004). For instance, McCormick (2004, p. 10) notes that:

“Various events have conspired to thrust tax matters onto board agendas … But there is little evidence of overall tax strategy; no well thought-through technically robust, philosophically coherent set of policies, principles and objectives for a function that manages the disposal of a third of pre-tax profits”.

Mulligan and Lamb (2004, p. 21) identify a gap in the existing tax planning literature, “namely, an understanding of how businesses create, formulate and administer their tax plans”. Yancey and Cravens (1998) contend that international tax planning is a critical component of business strategy which requires attention from managers of all functional areas in the firm. However, there is little empirical evidence on how strategic decisions and tax decisions are inter-related (Glaister & Frecknall-Hughes, 2008) or on how executives approach tax decisions, and in particular how such decision making is influenced by ethical considerations (Doyle, Frecknall-Hughes, & Glaister, 2009). It is where one national tax jurisdiction interfaces with another that both genuine problems arise for firms operating in more than one jurisdiction as well as opportunities for them to use tax arbitrage by ‘playing’ one tax system off against another to avoid tax. For example, income derived from royalties, for instance, may not be taxable at all in one country, but could be taxed by another at its highest applicable rates. It makes economic sense to locate the royalty income in the lower tax country. Often opportunities have arisen for firms to use transfer pricing or income shifting mechanisms in conjunction with low tax regimes to maximise income/profits (Hansen, Crosser, & Laufer, 1992). These and other such practices carry overtones of ethical dubiety, largely because of the tone adopted by tax authorities (see Wyman, 1997, on that adopted in the UK).

Firms frequently employ tax advisers (Glaister & Frecknall-Hughes, 2008). The involvement of tax advisers in this area adds a further ethical dimension. Often professional tax advice is required to navigate through genuinely ambiguous tax legislation (Frecknall-Hughes & Moizer, 2004; Hume, Larkins, & Iyer, 1999) or cross-border transactions. However, advisers may adopt a different stance from their clients, which may be more or less ethical in terms of how aggressively they pursue tax avoidance strategies (Milliron, 1988) or market particular schemes to clients (Doyle et al., 2009). This may create dilemmas for clients who will not wish to see damage to their reputation as a result of vilification in the press for engaging in tax practices which attract criticism and which may attract the attention of tax authorities (Doyle et al., 2009). There is an issue as to exactly what professional advice should be offered in order to reduce the tax paid. While this may deter firms from adopting very aggressive tax avoidance measures, it may also deter them needlessly from acting in a perfectly legitimate manner to reduce their tax bill. There is an implicit suggestion that ethics in taxation may somehow involve abstaining from permitted legal ways and means to reduce tax and voluntarily going ‘beyond the law’ to apply some higher (undefined) ethical standards.

The above discussion leads us to posit a number of research questions:

(1) What importance do UK and Turkish firms place on adhering to legal regulations in their respective jurisdictions?
(2) What importance do UK and Turkish firms place on adhering to inherent moral standards not specifically covered by law?
(3) What do firms do if (1) and (2) conflict?
(4) What importance do UK and Turkish firms place on challenging the law?
(5) What importance do UK and Turkish firms place on the impact of (1) to (4) on their corporate reputation?
The paper first examines these research questions for the UK and Turkey independently and then seeks to make comparisons between the UK and Turkey. The latter is undertaken by way of a binomial logistic model, which seeks to explain the extent to which the relative importance of taxation related ethical concerns varies between Turkish and the UK firms.

3. Research methods

3.1. Sample

The research questions are addressed by examining data obtained from a self-administered questionnaire completed by UK respondents and Turkish respondents. The development of the questionnaire was guided by the literature review, consultation with experts and feedback from personal interviews with seven UK tax specialists. A semi-structured questionnaire was used for the interviews, and interviewees were allowed to enlarge on topics. Tax avoidance and current corporate and tax authority attitudes to it featured largely in all interviews in relation to ethics. The literature review provided the context and background for this study and general issues that would be relevant in the context of corporate tax ethics. However, as noted above, there is no work specifically on companies in this area, so the detailed questions used in the questionnaire were derived from the circumstances of the interviewees’ companies and the responses of the interviewees themselves.

To operationalise and make the five general research questions outlined above specific to corporate bodies, company respondents were asked to rank on a Likert scale of 1–5 (where 1 = not important and 5 = very important) how important the following 11 considerations were in their organisation’s tax decision making process:

1. Obeying the law
2. Using loopholes in the law
3. Stretching the law so as to obey its word but not its spirit
4. Voluntarily adhering to some higher moral standard than the law
5. Being able to defend publicly what the organisation has done
6. Not participating in tax avoidance schemes likely to be challenged by the Inland Revenue
7. Actively participating in tax avoidance schemes to define better ill-defined law
8. Employing aggressive tax advisers
9. Doing the same as other companies in the same industry
10. Lobbying the government for tax law changes
11. Using corporate size/strength/reputation to obtain special deals from UK/Turkey/overseas governments

The UK data comprise quantitative responses from the tax practitioners working in 145 UK firms. To obtain the UK data, we used the Hemscott Company Guru database as a sampling frame. The Hemscott Company Guru database contains financial data for 300,000 of the largest UK established firms, including both private and public enterprises. The database provides detailed information on directors, share prices, trades, information on organisational management and the activity status of firms. The Hemscott database uses multiple sources to obtain information, for example, records on public enterprises are obtained from the Alternative Investment Market at the London Stock Exchange, while data on private firms with an annual turnover of £1 million or current assets over £250,000 are collected from Experian Ltd. Both public limited companies and private enterprises were incorporated in the sampling frame. Each record showed the company address, name of the Chief Executive Officer (CEO) and/or Chief Financial Officer (CFO) and telephone numbers. This selection procedure generated a total of 1000 firms and constituted the UK sampling frame for the study.

A total of 1000 questionnaires was mailed out. To ensure good quality replies and to enhance the response rate, we identified the most senior and knowledgeable informants to whom the questionnaire was addressed. To encourage participation in the survey and to provide motivation for accurate responses, the respondents were guaranteed anonymity and were promised a summary report of research findings if requested.

A total of 165 questionnaires was returned, of which 145 were usable (the remaining 20 were excluded owing to missing data), constituting an effective response rate of 14.5%. This is a relatively good response rate given the well-documented difficulties of obtaining questionnaire responses from an industrial population, especially where the focus of the study is on taxation (Al-Eranyi, Alam, & Akhter, 1990; Borkowski, 1997; Cravens, 1997). Our questionnaire response rate is comparable with other research efforts in taxation conducted in an industrial/commercial context.

The sampling frame for the Turkish firms was drawn from the website of TOBB (The Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey at http://www.tobb.org.tr), which provides an Industrial Database that contains approximately 40,000 firms that are registered with any of 10 Chambers of Industry, 19 Chambers of Trade and 64 Chambers of Industry and Trade in Turkey. The names and addresses of these companies are available from the websites of these chambers, which are linked to the website of TOBB. Within this sample frame, many very small companies of fewer than 100 employees were excluded. This was not viewed as a serious threat to the study as many such companies are likely to be managed entrepreneurially and so have no recognisable tax planning system. Through a random sampling selection procedure, a total of 1000 firms was generated and constituted the Turkish sampling frame for the study.
The survey questionnaire was mailed to the CEO of each company with a letter requesting that the CEO, or his/her senior executive in charge of taxation related issues within the organisation, should complete it. After one reminder, a total of 204 questionnaires was returned, of which 189 were usable (the remaining 25 were excluded owing to missing data), representing an effective response rate of 18.9%, which was satisfactory, given the confidentiality and complexity of the questionnaire. The respondent companies were also compared across the main characteristics of the sampling frame such as industry type and geographical location and showed no systematic differences ($p > 0.1$).

The characteristics of the UK and Turkish sample firms are shown in Table 1.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>UK firms</th>
<th></th>
<th>Turkish firms</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>Organisational type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public limited company</td>
<td>88</td>
<td>60.7</td>
<td>39</td>
<td>20.6</td>
</tr>
<tr>
<td>Other</td>
<td>57</td>
<td>39.3</td>
<td>150</td>
<td>79.4</td>
</tr>
<tr>
<td>Industry sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>84</td>
<td>57.9</td>
<td>43</td>
<td>22.8</td>
</tr>
<tr>
<td>Non-services</td>
<td>61</td>
<td>42.1</td>
<td>146</td>
<td>77.2</td>
</tr>
<tr>
<td>Engaged in FDI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>101</td>
<td>69.7</td>
<td>31</td>
<td>16.4</td>
</tr>
<tr>
<td>No</td>
<td>44</td>
<td>30.3</td>
<td>158</td>
<td>83.6</td>
</tr>
<tr>
<td>Uses external tax advisers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>144</td>
<td>99.3</td>
<td>129</td>
<td>68.3</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>0.07</td>
<td>60</td>
<td>31.7</td>
</tr>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>7120</td>
<td></td>
<td>430</td>
<td></td>
</tr>
<tr>
<td>$N$</td>
<td>145</td>
<td></td>
<td>189</td>
<td></td>
</tr>
</tbody>
</table>

$^a$ ‘Public limited company’ denotes that the company shares were publicly traded on a stock exchange.

$^b$ ‘Other’ indicates companies the shares of which were not publicly traded.

$^c$ ‘FDI’ denotes foreign direct investment, denoting whether the firm had invested in real assets outside its home jurisdiction.

### 3.2. Model specification

Owing to the nature of the dependent variable, a binary logistic regression was used, which estimates the probability of an event occurring. The binary logistic model can be expressed as:

$$P(Y_i = 1) = \frac{1}{1 + \exp(-a - X_iB)}$$

where $Y_i$ is the dependent variable, defined by a dummy variable either 1 or 0. The value of 1 denotes the probability of an event occurring rather than another as shown by the value of 0. $X_i$ is the vector of independent variables for $i$th observation, $a$ is the intercept parameter and $B$ is the vector of the regression parameters (Amemiya, 1981). The regression coefficients estimate the impact of the independent variables on the probability of an event that occurs. A positive sign for the coefficient means that the variable increases the probability of the event occurring, while a negative sign signifies the opposite. The maximum likelihood estimates of the parameters were obtained employing logistic regression. The explanatory power of the model is assessed using the model chi-square statistics, which test the null hypotheses that all parameter coefficients are zero, except the intercept term. Large chi-square values and small $p$ values indicate good fit. The predictive ability of the model can be determined by the correct classification rate, which shows the percentage reduction in classification errors with respect to random selection. However, to identify an acceptable level of predictive accuracy, the obtained classification rate has to be compared with the rate that would have been obtained by chance. In the case of unequal group sizes, the standard to calculate this rate should be proportional chance criterion. The formula for this criterion is: $\alpha^2 + (1 - \alpha)^2$, where $\alpha$ is the proportion of cases in group 1 and $1 - \alpha$ is the proportion of cases in group 2. For a rough estimate of the acceptable level of predictive accuracy, Hair, Anderson, Tatham, and Black (1995, p. 204) suggest that the classification rate should be at least one-fourth greater than the proportional chance criterion.
Table 2
A comparison of taxation related ethical issues between UK firms and Turkish firms.

<table>
<thead>
<tr>
<th>Issue</th>
<th>UK firms</th>
<th></th>
<th></th>
<th></th>
<th>Turkish firms</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Obedying the law</td>
<td>1</td>
<td>4.82</td>
<td>0.38</td>
<td>1</td>
<td>4.51</td>
<td>0.86</td>
<td>4.82</td>
<td>***</td>
</tr>
<tr>
<td>Being able to defend publicly what the organisation has done</td>
<td>2</td>
<td>4.21</td>
<td>0.94</td>
<td>2</td>
<td>4.03</td>
<td>1.44</td>
<td>1.36</td>
<td></td>
</tr>
<tr>
<td>Not participating in tax avoidance schemes likely to be challenged by</td>
<td>3</td>
<td>3.24</td>
<td>1.19</td>
<td>4</td>
<td>3.51</td>
<td>1.66</td>
<td>1.69</td>
<td></td>
</tr>
<tr>
<td>the Inland Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using loopholes in the law</td>
<td>4</td>
<td>2.98</td>
<td>0.98</td>
<td>7</td>
<td>2.46</td>
<td>1.40</td>
<td>3.95</td>
<td>***</td>
</tr>
<tr>
<td>Doing the same as other companies in the same industry</td>
<td>5</td>
<td>2.82</td>
<td>1.17</td>
<td>6</td>
<td>2.72</td>
<td>1.41</td>
<td>0.71</td>
<td></td>
</tr>
<tr>
<td>Stretching the law so as to obey its word but not its spirit</td>
<td>6</td>
<td>2.43</td>
<td>0.93</td>
<td>8</td>
<td>2.45</td>
<td>1.48</td>
<td>0.17</td>
<td></td>
</tr>
<tr>
<td>Voluntarily adhering to some higher moral standard than the law</td>
<td>7</td>
<td>2.39</td>
<td>1.05</td>
<td>3</td>
<td>3.66</td>
<td>1.51</td>
<td>9.01</td>
<td>***</td>
</tr>
<tr>
<td>Lobbying the government for tax law changes</td>
<td>8</td>
<td>2.32</td>
<td>1.30</td>
<td>11</td>
<td>2.15</td>
<td>1.42</td>
<td>0.27</td>
<td></td>
</tr>
<tr>
<td>Employing aggressive tax advisers</td>
<td>9</td>
<td>2.03</td>
<td>0.94</td>
<td>5</td>
<td>3.35</td>
<td>1.51</td>
<td>9.74</td>
<td>***</td>
</tr>
<tr>
<td>Using corporate size/strength/reputation to obtain special deals from government</td>
<td>10</td>
<td>1.90</td>
<td>1.14</td>
<td>10</td>
<td>2.26</td>
<td>1.31</td>
<td>2.59</td>
<td></td>
</tr>
<tr>
<td>Actively participating in tax avoidance schemes to define better ill-defined law</td>
<td>11</td>
<td>1.73</td>
<td>0.87</td>
<td>9</td>
<td>2.32</td>
<td>1.46</td>
<td>4.53</td>
<td>***</td>
</tr>
</tbody>
</table>

The mean is an average on a scale of 1 = not important to 5 = very important.
S.D.: standard deviation.
* p < 0.1.
** p < 0.05.
*** p < 0.01.

4. Findings and discussion

Before examining the regression results it is instructive to consider the relative importance of the ethical issues for each group of country respondents. The relative importance of the ethical issues is shown in rank order in Table 2.

For both UK and Turkish firms ‘obeying the law’ and ‘being able to defend publicly what the organisation has done’ are the two most important ethical issues, each with a mean score above four (on a five point scale). It may be noted, however, that ‘obeying the law’ has a statistically higher mean (p < 0.01) for UK respondents compared with Turkish respondents.

In general, the ranking by means is relatively consistent between the two country groups, except it is noticeable that ‘using loopholes in the tax law’ is ranked higher for UK firms than Turkish firms (with a statistically significant difference in means (p < 0.05)). Also, ‘voluntarily adhering to some higher moral standard than the law’ and ‘employing aggressive tax advisers’ are ranked higher for Turkish firms than UK firms (with a statistically significant difference in means (p < 0.05)).

Both ‘using corporate size/strength/reputation to obtain special deals from government’ and ‘actively participating in tax avoidance schemes to define better ill-defined law’ have a low rank for both groups of respondents, although there is a significant difference in means (p < 0.10 and p < 0.05, respectively) with, in each case, the mean being higher for the Turkish firms.

It is apparent from Table 2 that both UK firms and Turkish firms stress the importance of conforming to the law, of being able to justify in a public manner the tax actions they have taken, and not participating in schemes likely to be challenged by the tax authorities. This indicates that both groups of firms are very conscious of appearing to behave in a publicly appropriate manner with respect to tax matters. On the whole Turkish firms appear to be more passive than UK firms in terms of seeking to influence the law relating to tax, while Turkish firms appear more active in being prepared to employ aggressive tax advisers. This may be a feature of the differences between the samples of UK and Turkish firms, with fewer Turkish firms being public companies and therefore having less economic influence, and a feature of them operating in a less developed legal environment.

To investigate these findings more stringently we now turn to the regression analysis. Prior to running the binomial logistic regression, a correlation matrix of the variables was prepared. Table 3 shows that the pairwise correlations were not large enough to warrant concern about possible multicollinearity problems.

Table 4 shows the results of the logistic regression where the UK firms were taken as the base and given a zero value. The binomial logistic model explains the extent to which the relative importance of taxation related ethical concerns varies between Turkish and the UK firms. The model has a high overall explanatory power with a significant chi-square value (p < 0.01). Table 4 also shows that the model has a good correct classification rate (84%) that is well above the base line rate. Both the specificity (the ability to correctly predict the UK firms) at 84% and sensitivity of the model (the ability correctly to predict Turkish firms) at 83%, are excellent. Pseudo R-square measures confirm that the model has relatively good explanatory power.

From the full set of 11 taxation-related ethical concerns, eight have significant coefficients. Of these variables, four have negative coefficients which include ‘obeying the law’ (p < 0.01), ‘using loopholes in the law’ (p < 0.01), ‘doing the same as other companies in the same industry’ (p < 0.1) and ‘lobbying the government for tax law changes’ (p < 0.05). These findings reveal that these four ethical issues are relatively more important for the UK firms than for Turkish firms.

Two of these findings concerns imply a high degree of conformity – ‘obeying the law’ and ‘doing the same as other companies in the same industry’. For UK firms there may be greater corporate social responsibility pressures to be seen to be behaving appropriately. The risk of poor publicity arising from public knowledge of not conforming in these ways may be
Table 3
Descriptive statistics and correlations among variables.

<table>
<thead>
<tr>
<th>Variable names</th>
<th>Variable description</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. TAX_ETH1</td>
<td>Obeying the law</td>
<td>4.65</td>
<td>0.71</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. TAX_ETH2</td>
<td>Using loopholes in the law</td>
<td>2.69</td>
<td>1.26</td>
<td>−0.13</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. TAX_ETH3</td>
<td>Stretching the law so as to obey its word but not its spirit</td>
<td>2.44</td>
<td>1.27</td>
<td>−0.18</td>
<td>0.46</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. TAX_ETH4</td>
<td>Voluntarily adhering to some higher moral standard than the law</td>
<td>3.10</td>
<td>1.46</td>
<td>−0.05</td>
<td>0.08</td>
<td>0.01</td>
<td>0.13</td>
<td>0.07</td>
<td>0.31</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. TAX_ETH5</td>
<td>Being able to defend publicly what the organization has done</td>
<td>4.11</td>
<td>1.25</td>
<td>0.19</td>
<td>0.13</td>
<td>0.07</td>
<td>0.08</td>
<td>0.21</td>
<td>0.32</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. TAX_ETH6</td>
<td>Not participating in tax avoidance schemes likely to be challenged by the Revenue authorities</td>
<td>3.39</td>
<td>1.47</td>
<td>0.04</td>
<td>0.00</td>
<td>0.08</td>
<td>0.21</td>
<td>0.07</td>
<td>0.31</td>
<td>0.32</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. TAX_ETH7</td>
<td>Actively participating in tax avoidance schemes to define better ill-defined law</td>
<td>2.06</td>
<td>1.27</td>
<td>−0.22</td>
<td>0.31</td>
<td>0.35</td>
<td>0.28</td>
<td>0.14</td>
<td>0.17</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. TAX_ETH8</td>
<td>Employing aggressive tax advisers</td>
<td>2.77</td>
<td>1.44</td>
<td>−0.12</td>
<td>0.11</td>
<td>0.19</td>
<td>0.32</td>
<td>0.08</td>
<td>0.12</td>
<td>0.40</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. TAX_ETH9</td>
<td>Doing the same as other companies in the same industry</td>
<td>2.76</td>
<td>1.31</td>
<td>−0.11</td>
<td>0.29</td>
<td>0.23</td>
<td>0.21</td>
<td>0.19</td>
<td>0.09</td>
<td>0.35</td>
<td>0.25</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. TAX_ETH10</td>
<td>Lobbying the government for tax law changes</td>
<td>2.22</td>
<td>1.37</td>
<td>−0.12</td>
<td>0.34</td>
<td>0.26</td>
<td>0.11</td>
<td>0.20</td>
<td>0.20</td>
<td>0.36</td>
<td>0.24</td>
<td>0.38</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>11. TAX_ETH11</td>
<td>Using corporate size/strength/reputation to obtain special deals from government</td>
<td>2.09</td>
<td>1.24</td>
<td>−0.18</td>
<td>0.28</td>
<td>0.14</td>
<td>0.10</td>
<td>−0.01</td>
<td>0.05</td>
<td>0.36</td>
<td>0.27</td>
<td>0.26</td>
<td>0.48</td>
<td>1</td>
</tr>
</tbody>
</table>

S.D.: standard deviation.
N = 334.
* p < 0.001 (two-tailed test).
greater for UK firms than for Turkish firms. The pressure to conform to particular industry practices will lead to a high degree of isomorphism, which may inhibit particular companies from acting in a contrary manner, as this may put at risk their reputations if most of the other firms in the industry seek publicly to discredit the actions taken. Such reputational effects may be more important to the public profile of UK firms than they are to Turkish firms. Also, there may be less well-organised collective industry working in Turkey.

Paradoxically, however, two of the concerns involve issues of not conforming – ‘using loopholes in the law’ and ‘lobbying the government for tax law changes’ – both of which are more important to UK tax practitioners. More sophisticated and readily available tax expertise in the UK than in Turkey may facilitate the former. Given the acceptance of a better established lobbying system in the UK than Turkey, this may lead to the perception in the UK that lobbying is worthwhile and may lead to favourable change compared with attitudes in Turkey.

The four variables that have positive and significant coefficients are as follows: ‘voluntarily adhering to some higher moral standard than the law’ ($p < 0.01$), ‘actively participating in tax avoidance schemes to define better ill-defined law’ ($p < 0.01$), ‘employing aggressive tax advisers’ ($p < 0.01$) and ‘using corporate size/strength/reputation to obtain special deals from government’ ($p < 0.1$). These findings suggest that these four ethical issues appear to be relatively more important for Turkish firms than UK firms.

The finding that voluntary adherence to moral standards other than the law is viewed more importantly by Turkish firms than the UK firms is not surprising. Since tax related legislation is highly complex, and since historically Turkish tax laws are known to have many loopholes (World Bank, 2008), voluntary adherence to higher moral standards emerges as more important than legislation. However, active participation in tax avoidance schemes is generally known to be common in Turkey, which is caused by detailed exemptions and incentive schemes, particularly in priority development regions and areas of strategic importance.

The finding that employing aggressive tax advisers is considered more seriously by Turkish firms than UK firms is also not surprising. In Turkey large industrial conglomerates and several large and medium sized firms tend to employ retired or former tax inspectors who are well networked with bureaucrats, inspectors and experts in the Ministry of Finance and the Treasury. As these professionals have detailed knowledge of the system and its loopholes, they also use the same terminology which provides them with some obvious advantages in exploiting ill-defined tax laws in Turkey.

Lobbying the government for tax law changes is also viewed more importantly by UK firms than Turkish firms. Lobbying the government is, however, a well-known practice in Turkey, carried out particularly by large conglomerates or industrial groups, though it is not ranked as highly as in the UK in Table 2. Investments in developing regions of Turkey are encouraged
by tax breaks and exemptions (such as national insurance exemptions and energy related exemptions) which motivate large scale firms to lobby the government to obtain special deals. These industrial groups also enjoy media advantages, as most of them operate in media and financial services.

No significant variation is found between Turkish and UK firms with respect to the relative importance of the following three taxation related ethical issues: ‘stretching the law so as to obey its word but not its spirit’, ‘being able to defend publicly what the organisation has done’ and ‘not participating in tax avoidance schemes likely to be challenged by the tax authorities’. The possible reason for these findings is that these activities are related. Stretching the law, being unable to defend publicly the organisation’s activities and participating in dubious tax schemes are all likely to attract unwelcome attention from the media and/or tax authorities, with resultant adverse effects on corporate reputation and/or tax investigation (at best) or legal action (at worst).

5. Conclusions

This study presents findings on responses to a set of ethical issues relating to taxation from tax practitioners employed in UK firms and Turkish firms. The paper therefore makes a significant contribution to the academic literature in obtaining and analysing data from tax professionals to provide a cross-national study. Fundamentally important to both groups of practitioners is obeying the law on taxation and being able to defend publicly what the organisation has done. As postulated in the study’s basic research questions, however, we have discovered differences in perceptions between the two groups.

Our underlying assumption is that these differences arise from the economic structural differences between the two groups of tax practitioners and the different level of sophistication in tax law. An understanding of these issues is important because the operation of the legislation relating to taxation has to be understood and accepted by the affected parties, and importantly, governments have to be able to raise the required levels of tax revenue without significantly alienating major stakeholder groups, including the business community. Greater insight into how ethical views on taxation arise and differ between countries may be used to enhance the credibility and effectiveness of the tax regimes involved and enhances efforts at international tax harmonisation.

We have drawn on the prior literature and interviews to derive a set of ethical issues relating to taxation. Further research can explore these individual issues in more detail but could also usefully identify other areas of ethical concern not explored here. For Western economies tax ethics is explicitly dominated by the issue of tax avoidance, but it is unclear whether this is as explicit in dominating tax ethics in emerging markets. It would be beneficial in future research to identify what this key issue is.

A limitation of the study is that the findings may not be generalisable, given that perceptions were investigated in only two countries, although these are used as proxies for developed and emerging economies. Future studies could usefully examine other country combinations in order to explore whether there are sets of differences common to those identified in this study. Comparing another advanced market economy and another emergent market economy would be useful in helping to generalise the findings, but broader studies investigating similarities and differences between groups of countries would be particularly valuable in generating a deeper insight on ethics and taxation.

As our study considers corporate bodies, it would be very difficult to find a way of evaluating corporate tax morale, and, indeed, culture, as we can only seek the views of individuals who own and/or manage firms. While a company is a legal person, it cannot take any actions itself, and cannot express opinions independently of the people who run it. It would therefore be very difficult to attempt to assess corporate tax morale, or indeed, corporate culture. Thus we have not attempted to do this, since the focus of the study is on how firms deal with and apply tax law as it affects the corporate body.

Possible consequences of seeking company data from employees/managers are that they will give their own personal view and/or will give the responses that they think are to the company’s advantage or are socially desirable. However, this is a potential problem for all studies which seek company data via employees/managers, not this one alone. We feel, however, that this was precluded to a large degree here by seeking out the most senior and knowledgeable informants in target companies, who would be accustomed to represent their companies and, given the guarantee of anonymity and non-attribution of responses that was provided, honestly provide truthful company data.

References


