

The Influence of Corporate Tax Strategy (CTS) On Consumer Reaction (Cr) With Consumer Perceived Ethicality (CPE) as A Mediating Variable Using Experimental Method

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ABSTRACT: This study aims to examine the impact of Corporate Tax Strategies (CTSs) on consumer reactions, with Consumer Perceived Ethicality (CPE) acting as a mediating variable. Previous research on CTSs has largely focused on macro-level analyses, exploring whether aggressive tax minimization strategies lead to negative stakeholder reactions that affect company performance. However, findings on the effect of CTSs on company value remain inconclusive, with some studies reporting a negative influence and others finding no significant relationship. This research employs a quantitative approach using an experimental method to address this gap by focusing on consumer-level reactions. The methodology involves simulating scenarios to measure consumer responses to perceived ethicality in corporate tax practices. The results indicate that CTSs significantly influence consumer reactions, with CPE playing a critical mediating role. Specifically, when corporations engage in perceived unethical tax strategies, consumer trust and loyalty decline, reinforcing the importance of ethical considerations in corporate decision-making. The study concludes that incorporating ethical dimensions into tax strategies can mitigate negative consumer reactions and enhance corporate social responsibility (CSR) initiatives. These findings contribute to the literature on CSR and consumer behavior, offering practical insights for corporations aiming to align tax practices with ethical standards to foster positive consumer perceptions.

Keywords: corporate tax strategy, consumer reaction, consumer perceived ethically, mediation variables

INTRODUCTION

Research related to the influence of morality on corporate tax strategies (CTRs) by minimizing the amount of tax owed by companies in recent decades has increased (Dowling, 2014; Scheffer, 2013; Sikka, 2010). Multinational companies are scanned for tax planning by utilizing domestic rules to pay lower taxes on profits earned in the jurisdiction/country where the company records high sales (Ting, 2014).

Previous research on Corporate Tax Strategies (CTSs) has only focused on the macro level, which examines whether aggressive tax minimization strategies produce negative reactions from stakeholders that affect company performance (Scheffer, 2013). Some researchers have found a negative influence on the implementation of Corporate Tax Strategies (CTSs) on company value (Hanlon & Slemrod, 2009), while others have found no

significant influence (Gallemore, Maydew & Thornock, 2014). Several other studies have found that Corporate Tax Strategies (CTSs) can affect the psychological aspects of stakeholders (Huang & Watson, 2015). Hardeck and Hertl (2014) are the first researchers to have conducted research on how Corporate Tax Strategies (CTSs) affect consumer behavior, the study found that individuals will give 'punishment' to companies that carry out Corporate Tax Strategies (CTSs) aggressively and vice versa, will give 'rewards' to companies that do not carry out tax planning to reduce the tax burden.

In fact, some studies argue that a company's decision to carry out tax planning can be related to the corporate social responsibility (CSR) program carried out by the company (Dowling, 2014; Scheffer, 2013; Sikka, 2010). Companies that have fewer CSR activities are more likely to conduct Corporate Tax Strategies (CTSs) aggressively (Hoi, Wu & Zhang, 2013; Lanis & Richardson, 2015). Research on the extent of stakeholder reactions to Corporate Tax Strategies (CTSs) mediated by corporate ethics has never been conducted in Indonesia. However, some researchers assume that tax planning will influence ethical judgments by stakeholders, so this study will test these assumptions explicitly through a mediating variable, Consumer Perceived Ethicality (CPE). More and more corporations are implementing Corporate Tax Strategies (CTSs) in the hope of having a positive influence on consumer reaction (CR) (Bhattacharya, Korschun, & Sen, 2009; Hardeck & Hertl, 2014), so it is very important to conduct empirical research to prove this.

This study aims to examine the influence of Corporate Tax Strategy (CTS) on Consumer Reaction (CR) through Consumer Perceived Ethicality (CPE). This research can contribute empirically to research in the field of CSR and consumer behavior that studies unethical behavior by corporations (Grappi, Romani, & Bagozzi, 2013; Huber, Vollhardt, Matthes, & Vogel, 2010). Based on this, the researcher is interested in raising the research title 'The Effect of Corporate Tax Strategy (CTS) on Consumer Reaction (CR) with Consumer Perceived Ethicality (CPE) as a Mediating Variable using Experimental Method. The research was conducted using a quantitative approach with an experimental method. The results of this research can be used to add academic contributions and references for future research.

Literature Review

Corporate Tax Strategies (CTSs)

Corporate Tax Strategies (CTSs) are a corporate effort to minimize tax liabilities owed (Hardeck & Hertl, 2014). The practice of CTSs can be carried out legally and illegally (Culiberg & Bajde, 2014). The focus of this study is to use CTSs that are legal, although there is still a lot of debate in this context. CTSs are legally divided into 2, namely Aggressive CTSs which means that the practice of CTS takes advantage of loopholes in existing tax regulations (Hoi et al., 2013); and conservative CTSs that use existing rules to minimize tax liabilities (Dowling, 2014), such as business turnover of less than 4.8 billion are allowed to choose to use the PP 23 of 2018 facility or the rate of article 31 E of the Income Tax Law. used in this study are Conservative CTSs.

Corporate Tax Strategies (CTSs) and Perceived Ethicality (CPE)

The results of previous research stated that stakeholders had a positive reaction to the practice of CTSs (Hanlon & Slemrod, 2009). The reaction occurs due to external influences, which label corporations as 'tax shirkers', thus influencing consumer reactions (Cloyd, Mills, & Weaver, 2003). The results of other studies showed different results, stating that CTSs did not have a detrimental influence on organizational performance (Gallemore et al., 2014).

If a company conducts CTSs, then consumers will give rewards, because consumers consider the corporation to have acted fairly (Scheffer, 2013). It can be said that CTSs will

influence consumers' assessment of morals/ethics applied by the organization. This assumption has not been explicitly tested by researchers (Huang & Watson, 2015), especially in Indonesia.

Research conducted by Brunk (2010, 2012) proposes a construct/variable that can assess the applied organizational ethics, namely Consumer Perceived Ethicality (CPE). The study uses consequentialist and deontological methods to assess the morality of companies. So the hypothesis built in this study is that Conservative CTSs are considered to be able to increase Consumer Perceived Ethicality (CPE).

H1. Conservative CTSs have a positive effect on Consumer Perceived Ethicality (CPE)

Corporate Tax Strategies CTSs on Consumer Reaction (CR)

Legally, taxes are an obligation that companies must comply with, however, the extent to which CTSs can be interpreted as positive or negative CSR examples is still a matter of debate (Hasseldine & Morris, 2013). Consumers tend not to appreciate companies that carry out CSR activities with certain motives (Skarmas & Leonidou, 2013). However, if CTSs are applied, consumers tend to believe because they think the company is not doing anything that violates the regulations. The cost of compliance with these CTSs practices will also take time and money, so many parties judge the CTSs practices carried out by companies only to try to minimize the existing risks and not to behave ethically (Hasseldine & Morris, 2013).

Based on the results of the literature, the researcher concluded that the practice of CTSs showed a positive influence on consumer reaction. Research on CSR also supports this hypothesis, an organization can be given punishment or reward for ethical behavior (Bhattacharya et al., 2009; Trudel & Cotte, 2009). Thus, the hypothesis proposed is that CTSs have a positive effect on consumer reaction, which is measured using indicators of attitude, purchase intention (PI), and negative word of mouth (NWoM) (Hardeck & Hertl, 2014).

H2. Corporate Tax Strategies (CTSs) have a positive effect on Consumer Reaction (CR).

H3. Consumer Perceived Ethicality mediates the positive influence of Corporate Tax Strategies (CTSs) on Consumer Reaction (CR)

CTSs conceptual model

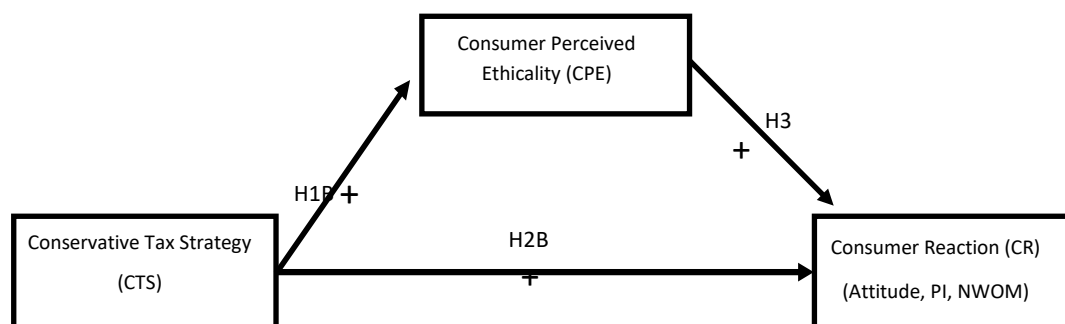


Figure 1. Research Outline

Figure 1 summarizes the mediation model in the practice of Corporate Tax Strategies (CTSs). This study tested consumer reactions to fictitious companies that researchers had prepared and manipulated information about CTSs practices used by the companies, for testing using experimental designs. This study focuses on Consumer Reaction (CR) which is indicated by attitude, purchase intention (PI), and negative word of mouth (NWoM).

RESEARCH METHODOLOGY

Design/Research Stages

The method used in this study is quantitative with an experimental design. Respondents will be divided into 2 (two) groups. One group was given manipulative information related to CTSs practices, while one group was a control condition that was not given any information related to the tax practices carried out by the company (Hardeck & Hertl, 2014). The respondents used were 100 people who were recruited through open registration through google form, each respondent who was willing to become a volunteer, each will be given credit of Rp50,000.00. To improve the validity of the data provided by the respondents, the researcher used the Instructional Manipulation Check (IMC) approach (Oppenheimer, Meyvis, & Davidenko, 2009). The following are the steps of the research:

1. Respondents read/view the information/videos provided with information about companies that practice CTs, and
2. Respondents answered the questions on the questionnaire given.

Research Location (Population and Sample)

This research was conducted in the cities of Surabaya, Yogyakarta, and Bali. The three locations were chosen because they are cities with a very dense population and the level of consumption of electronic goods, especially laptops, with well-known brands in the city is quite high. Cumulatively, the average per capita income expenditure of the people of Surabaya in one month reached IDR 1,879,146 (Central Statistics Agency of Surabaya City, 2021). Meanwhile, the average per capita income expenditure of the people of Yogyakarta in one month reached Rp1,339,281 (Central Statistics Agency of Yogyakarta City, 2020) and the per capita income expenditure of the Balinese people reached Rp840,152 per month according to non-food groups (Central Statistics Agency of Bali Province).

Population refers to the entire group of people, events, or interests that researchers want to investigate (Sekaran and Bougie, 2010). The population used in this study is consumers of well-known brand products in 3 major cities, Surabaya, Yogyakarta, and Bali. Sekaran and Bougie (2010) stated that the sample is a sub-group or part of the population. Sample selection uses the convenience sampling method, which is a sampling technique carried out by selecting free samples according to the researcher's decision (Hartono, 2015). In this study, the number of population is not known for sure and the sampling technique used according to Abdillah and Hartono (2015) is at least 10 times the number of pathways or hypotheses prepared. The hypothesis of this study is 3 hypotheses so that the minimum number of samples is 30 samples. The researchers set out to use 200 samples for the three cities. These results are believed to be able to represent the entire population that has been determined.

Research Variables

The research method uses quantitative-experimental, where in the process it has the goal of finding out the influence of a certain treatment, as well as testing the hypothesis that has been built by the researcher. The treatment carried out by the researcher is to provide information about behavior to minimize tax obligations that must be paid by the company using existing rules. The variables used in this study are:

1. Independent Variables

The independent variable in this study is Corporate Tax Strategy (CTS). Corporate Tax Strategy (CTS) is an effort made by companies in order to minimize the tax burden that must be paid. This study uses CTS conservatively, which means that the practice of CTS uses existing tax regulations to minimize tax liabilities (Hardeck & Hertl, 2014).

2. Dependent Variables

The dependent variable in this study is Consumer Reaction (CR). Consumer Reaction (CR) is the positive or negative feedback a company receives about its products, services, or business ethics. Consumer responses can be requested by the company or initiated by the consumer. These variables are measured through indicators of purchase intention, attitude toward tax avoidance, and negative word of mouth (Skarmeas & Leonidou, 2013).

3. Mediation/Intervening Variables

The mediating variable in this study is Consumer Perceived Ethicality (CPE). Consumer Perceived Ethicality (CPE) is the aggregate perception of 'consumers' about the morality of a subject, i.e. a company, brand, product, or service (Brunk & Bluemelhuber 2011).

RESULT AND DISCUSSION

Corporate Tax Strategy (CTS) has a positive effect on Consumer Perceived Ethicality (CPE)

Based on the results of the test that has been carried out through the direct effect hypothesis, the results of CTS have a positive and significant effect on CPE in the group that receives treatment regarding tax planning. When companies carry out tax planning by reducing the tax burden legally payable, it can have a positive impact on consumer perception ethics by increasing the group that receives treatment or providing information about the company's strategy to reduce tax liability. This statement is reinforced by Brunk (2012) in his research which explains that assessing the consequences of corporate unethical actions against CPE is a prerequisite with high urgency to develop a better understanding of the cause-and-effect relationship between corporate behavior and consumer feedback. In addition, among the actions taken by companies in minimizing tax liabilities owed to the ethics of consumer perception have a relationship that is in line with the positive impact of conservative CTS.

Another supporting research was conducted by Tsalikis and Seaton (2006) in measuring consumers' views on business ethics in general. The index that must be developed is in the form of estimates in predicting consumers' views on business ethics over time. Lanny et al (2012) also argued that if various aspects of validity are explored and reviewed the valid CPE scale, so that the CPE meets the goals that have been set to be concise, practical and easy to manage. When operationalizing CPE using a valid and reliable multi-item scale that assesses direction and degree, the ethical perception of consumers towards a subject (i.e. company, brand, or service) shows a positive influence simultaneously with the implementation of CSR.

Based on the results of other tests through the direct effect hypothesis, the results of CTS have a positive and significant effect on CPE in the group that does not receive treatment regarding tax planning. When companies carry out tax planning by reducing legally payable tax liabilities, it can have a positive impact on consumer perception ethics by increasing groups that do not receive treatment or control conditions that are not provided with any information related to tax practices carried out by the company. Antonetti and Anesa (2017) explained in their research that conservative tax actions can improve the image and perception of trust in companies. However, companies need to expect feedback by taking advantage of the implementation of conservative CTS.

On the other hand, from the study, there needs to be moral considerations in encouraging the implementation of conservative CTS from all existing cases. A more realistic view, the implementation of conservative CTS is a guarantee of the ethics of consumer perception potentially, which may be caused by aggressive CTS. In addition, the results found prominently if the company's target consumers are consumers with political ideological views,

are not necessarily variables that can be used in segmentation studies. So that an examination of the ethics of consumer value perception can explore potential risks for companies if potential consumers prioritize social justice, so that reports on aggressive CTS can damage the company's ability to expand its consumer base. This is in line with Ybarra's (2002) research explaining that companies should pay special attention to the CTS process reported in the media because aggressive CTS seems to be perceived as very negative by all consumers related to brands, regardless of their political views. So that conservative CTS is the best alternative used in companies, in line with this research.

Based on research conducted when companies conduct CTS, it will have an impact on consumer actions to provide rewards, because consumers consider corporations to have acted fairly (Scheffer, 2013). The company has been responsible in complying with its obligation to pay taxes and has not pursued all legal possibilities to minimize its taxes. It is concluded that CTS will affect consumers' assessment of morals and ethics applied by the organization. This statement is supported by research on CSR, which shows that businesses can be punished as well as rewarded based on their moral behavior (e.g., Bhattacharya et al., 2009; Trudel & Cotte, 2009). CTS is a way that companies can do by minimizing tax liabilities owed through the use of existing rules. The meaning of CTS still causes a lot of debate among researchers (Ragil Kuncoro, 2018). Companies that conduct CTS still have a good ethical assessment from consumers, because the company is considered not to violate existing laws or regulations (Scheffer, 2013). Consumers tend to be willing to pay more for each product from a company that implements CTS.

Companies that conduct CTS will be able to allocate their funds for development purposes or research and development of their products to meet consumer needs or can use them to carry out CSR activities. Consumer responses, both those who were given treatment and those who were not treated, showed the same results, namely CTS had a positive effect on CPE. Cen et al (2016) explained the influence of customer-supplier relations on tax avoidance or consumers and companies that have a positive and binding relationship. This is shown when the main customer and dependent supplier company have lower GAAP and tax rates than other similar companies, consistency with a close customer-supplier relationship facilitates tax avoidance. In addition, a strategy with the term tax haven was found which is one of the potential mechanisms of customers and supplier companies to reduce tax rates. Customer-supplier tax avoidance helps explain the company's organizational decisions, both for the principal of the customer and the dependent supplier. That is, the role of taxes in financial decision-making, and has important implications for tax authorities and policymakers.

Corporate Tax Strategy (CTS) has a positive effect on Consumer Reaction (CR)

According to Brown & Dacin (1997), one of the main factors influencing consumers' brand choice is consumers' perception of CTS. CTS can be an activity that creates value from a consumer perspective. Consumers tend to trust companies that do CTS, because they think the company does not do anything that violates regulations. The cost of compliance with CTS practices will also take time and money, so many parties judge CTS practices carried out by companies only to try to minimize the existing risks and not to behave ethically (Hasseldine & Morris, 2013).

Based on the respondents with treatment, the results of our study provide evidence that CTS has a positive and significant effect on CR. This means that the better the CTS in the group with treatment regarding tax planning, the more it can have an impact on increasing CR in the group with treatment regarding tax planning. Consumers are more likely to judge it as something reasonable, because it is in accordance with applicable law, or there is no indication

of fraud committed by the company. This does not affect consumers' decisions in buying the products they are interested in. Therefore, CTS also has a positive effect on the purchase intention of consumers who are given treatment or not.

Based on the respondents without treatment, CTS had a positive and significant effect on CR. This means that the better the CTS in the group without treatment regarding tax planning, the more it can have an impact on increasing CR in the group without treatment regarding tax planning. This result is also supported by Gallemore et al (2014) who could not detect the negative influence of tax shelter involvement on company sales. However, consumers in Germany are less tolerant of companies that perform CTS than consumers in the United States (Hanlon & Heitzman, 2010). Consumer reactions to decisions by companies regarding the use of CTS depend on the country in which the company does business (Hardeck et al, 2021). However, based on research by Antonetti & Anesa (2017), the results show that CTS does not have a direct influence on attitude, negative word of mouth, and purchase intention. CTS does not have a strong negative influence on consumer reactions. This is in line with Zhao et al (2010) who provided evidence of the positive influence of indirect CTS.

Based on the results of this study, CTS through tax planning is still considered reasonable because it does not contradict the applicable tax rules as long as there is no tax evasion carried out by the company. Therefore, CTS has no effect on consumers' purchase intention to buy the company's products. From a public policy point of view, consumer behavior is related to the tax strategies used by companies (Hardeck et al, 2021). Consumer awareness of CTS and thus the significance of CTS is clearly a prerequisite for any consumer response to CTS (Servaes & Tamayo, 2013). If the public is interested in limiting corporate tax avoidance, then policies to ensure more transparent CTS disclosures can put consumer pressure on companies to align their tax strategies with public expectations.

Consumer Perceived Ethicality (CPE) mediates the positive influence of Corporate Tax Strategy (CTS) on Consumer Reaction (CR), but not significantly

CPE is often used as a mediating variable in several previous studies related to companies and consumers. Research conducted by Brunk (2010) identified six domains of CPE origin. This domain reflects how the company/brand deals with consumers, employees, the environment, overseas communities, local communities and the community's economy and business. Existing research remains inconclusive about how strong the ethical considerations feature in it about consumer purchasing decisions and the relationship between CPE and consumer behavior still warrants further investigation (Brunk, 2010; Shea, 2010).

Based on the results of this study, it can be seen that CPE strengthens the positive relationship between CTS and CR, although it is not significant. CTS carried out by the company is considered by consumers to be a reasonable thing, as long as it does not violate the provisions of applicable regulations. If viewed from consumer perception, this CTS is an ethical behavior carried out by the company, because it is considered not against the law. CR does not always consider CTS as a positive thing, sometimes CR sees CTS as a negative behavior, so CPE is needed as an intervening variable to mediate the influence of CTS on CR.

The results of Singh et al's (2012) research show that CPE has a significant and positive relationship with product brand trust and product brand influence. Product brand trust and product brand influence both positively and significantly in relation to product brand loyalty. The results of another study by Markovic et al (2015) show that CPE has a positive influence and indirect effect on customer loyalty, through the mediator of customer affective commitment and customer perceived quality. Cifci et al (2016) proposed brand image, brand awareness, and CPE as the three main drivers of brand equity. Meanwhile, Iglesias et al (2019)

found that CPE has an indirect impact on brand equity through partial mediation of brand image. Therefore, companies can be involved in ethics in public marketing strategies to improve brand image (Basar et al, 2018).

This study uses CPE as a mediating variable because many previous research results show its influence as an intermediary between dependent and independent variables. CPE, which is usually related to brands, businesses, and companies, this time tested the results with the tax field as a consumer reaction in buying the products of a company that conducts CTS. The results of this study are also in line with the majority of previous studies that show the influence of CPE as a mediating variable. As a result, consumers have a reasonable perception of the CTS carried out by the company and do not affect the consumer's purchase intention to purchase the company's products.

Tax Planning does not moderate the influence of Corporate Tax Strategy (CTS) on Consumer Perceived Ethicality (CPE), Corporate Tax Strategy (CTS) on Consumer Reaction (CR), and Consumer Perceived Ethicality (CPE) on Consumer Reaction (CR)

Based on the results of tests that have been carried out through moderation variables, whether or not the treatment of tax planning does not moderate the influence of CTS on CPE, CTS on CR, and CPE on CR. In fact, it does not connect (strengthen or weaken) between the independent variable and the bound variable (Sugiono, 2017). When the group with information about the company's strategy minimizes the tax liability and the group without the control condition is not given any information related to the tax practices carried out, the company provides a non-significant difference from the effect of CTS on CPE in the group that receives treatment regarding tax planning or the group that does not receive treatment regarding tax planning, on the other hand, the effect of CTS on CR and the effect of CPE on CR. The results of the study showed that the coefficient of the influence of CTS on CPE and the influence of CTS on CR was slightly greater in the group that received treatment regarding tax planning. On the other hand, the influence of CPE on CR is slightly greater in the group that does not have treatment regarding tax planning.

Research conducted by Hanny et al (2018) explained that companies that carry out business strategies do not moderate the influence of CTS in weakening the positive influence on CPE and CR. Companies that have implemented CTS must consider CR to ensure the interests of consumers. Supporting research conducted by Escalas (2004) explained that consumers evaluate companies because consumers feel interconnected. This arises from the aggressive CTS that can drive criticism from right- and left-wing consumers.

Meanwhile, research conducted by Hardeck (2014) found a significant interaction between CTS and tax morals on corporate reputation. However, there is an insignificant influence on purchase intention and on consumers' willingness to pay. The results of the study concluded significantly in the combined sample for all dependent variables. The interaction between CTS and attitudes towards tax avoidance moderated significantly to a firm's reputation with a more negative attitude towards tax avoidance, i.e. a higher value on the scale and increased the influence of CTS on three dependent measures. On the other hand, when the reputation of a company with a more positive attitude towards tax avoidance is said to be not moderated.

Research conducted by Sikka (2010) shows that the opportunity for right-leaning consumers when evaluating brand ethics involved in aggressive CTS does not exist when consumers have a strong relationship with the brand, and political identification does not affect ethical judgments in relation to conservative CTS. Not moderating when consumers

evaluate fictitious brands such as in the application of CSR practices is more indicative of ethics than the circumstances when consumers have pre-existing beliefs about the brand.

CONCLUSION

This study aims to examine the influence of Corporate Tax Strategies (CTSs) on Consumer Reaction (CR) through Consumer Perceived Ethicality (CPE). Using 170 data from distributed and processed questionnaires, the study shows that tax compliance has a positive effect on consumer reactions and company reputation. Consumers justify companies that practice CTS, so that companies can allocate their funds for research and development purposes of their products to meet consumer needs or can use them to carry out CSR activities.

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