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The Impact of Tax Avoidance and National In-Country Value Certification (ICV) on Corporate Sustainability

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ABSTRACT

This paper investigates the impact of tax avoidance and National In-Country Value (ICV) certification on corporate sustainability in the emerging market of the United Arab Emirates. An explanatory study was conducted using the inductive approach. Quantitative data was collected using a survey instrument distributed to senior accountants. The findings show a neutral relationship between tax avoidance and corporate sustainability. Respondents show a significant impact of hard laws on tax avoidance. In addition, respondents perceive a significant relationship between ICV and corporate sustainability in the UAE emerging market. Respondents' nationality, age, education, and company characteristics, including size, type, and activity, determine the relationships between tax avoidance, soft laws, hard laws, ICV, and sustainability practices. The National In-Country Value (ICV) certification represents an innovative tool to boost local economic development and growth. Thus, this paper provides valuable guidance for managers, accountants, regulators, and policymakers to improve corporate and national sustainability policies.

Keywords: Tax Avoidance, National In-Country Value Certification, Sustainability, Emerging Markets
JEL Classifications: M40, M41, M48

1. INTRODUCTION

In the past few years, many studies have dealt with tax avoidance, sustainability, and how they can create value for several stakeholders. In the same vein, the national In-Country Value certification focuses thoroughly on strategies that make good use of the country's potential and help use natural resources to assist the main goals of diversified development (Al Shezawi and Khan, 2018). Thus, it is essential to make sure that companies follow national tax laws, regulations, and national economic programs to nurture and strengthen their performance and the country's economy. Companies should not let taxes affect their sustainability initiatives, as both bring significant financial benefits. The national In-country Value (ICV) certification is essential to enhance companies' bidding activities and diversify the national gross domestic product. However, previous studies noted that many companies engage in tax avoidance activities and use sustainability activities to mask these activities (Bisig, 2017; Bisig and Hummel, 2017). It has also been observed that an increasing number of UAE companies are registered for the ICV certification, which may directly affect corporate sustainability.

Previous studies have assessed the level of relationship between corporate social responsibility (CSR) and tax avoidance and found mixed results (Bisig, 2017; Zeng, 2019). Some scholars have mainly investigated tax avoidance as a sustainability problem (Bird and Davis-Nozemack, 2016), while other scholars investigated modeling and estimating host country values in international projects to facilitate National In-Country Value creation (Vidal et al., 2021). Nevertheless, there is a shortage of studies on the impact of ICV on corporate sustainability, and it is unclear how the relationship between tax avoidance and National In-Country Value certification can affect corporate sustainability, especially in emerging markets. Therefore, this paper investigates the relationships between tax avoidance, national In-Country Value, and corporate sustainability in the UAE emerging market. To achieve this purpose, this paper attempts to answer the following questions: (1) What is the relationship between tax avoidance and corporate sustainability? (2) How do hard and soft laws affect the problem of corporate tax avoidance? (3) How does National In-Country Value (ICV) certification affect corporate sustainability?

In this paper, tax avoidance is the use of tax allowance and reliefs in several ways, such as re-characterization or re-labeling of a transaction to avoid paying taxes to reduce the income tax paid by an individual or a company (Bisig, 2017; Bisig and Hummel, 2017). This paper adds to the existing literature in three ways. First, it attempts to increase further our knowledge of the relationship between corporate sustainability and tax avoidance, which helps regulators and policymakers take corrective actions to improve economic performance. Second, this paper identifies the main determinants of corporate tax avoidance, ICV, and sustainability relationships in an emerging market. Third, this paper introduces the National In-Country Value (ICV) concept and identifies how it affects corporate sustainability, a relatively new research field.

An explanatory study was conducted using the inductive approach. Quantitative data was collected using a survey instrument distributed to accountants in 2024. Several parametric and non-parametric statistical analysis techniques were used to test the study hypotheses. Empirical results show that companies engaging in aggressive tax avoidance often face significant reputational risks, leading to decreased investor confidence and long-term financial instability. Additionally, these companies may encounter increased regulatory scrutiny, resulting in legal penalties and potential future economic losses. In-Country Value (ICV) Certification: Empirical results show that corporations that obtain in-country value certification experience enhanced community relations and more robust local supply chains. This, in turn, leads to greater corporate sustainability through improved operational resilience, better stakeholder engagement, and a more robust social license to operate in the regions where they conduct business. The remainder of this paper has four sections: Section two presents the literature review, and section three discusses methodology and data collection. The data analysis and discussion are presented in section four, and finally, section five concludes with a summary and recommendations for future research.

2. LITERATURE REVIEW

The existing literature shows four main research themes: corporate sustainability, corporate social responsibility (CSR) and tax avoidance, hard and soft laws approaches, and National In-Country Value (ICV) certification. Corporate sustainability and Social Responsibility are two terms that go hand in hand, generally including social, environmental, and legal initiatives firms take to meet present needs without compromising the needs of future generations (Ashrafi et al., 2018). Tax avoidance represents the legal use of a single territory's tax regime to one's benefit to lower the amount of tax owed in legal ways (Bird and Davis-Nozemack, 2016). The complex law approach sets clear standards, imposing effective legal penalties for those who avoid paying taxes. In contrast, soft law refers to norms or practices with many of the characteristics of legal regulations but does not have the authority to impose binding responsibilities on those expected to follow them (Bird and Davis-Nozemack, 2016; Christians, 2007). The general theory of tax avoidance argues that principles of tax avoidance, such as tax postponement and arbitrage, can eliminate almost all taxes in a perfect capital market, and more attention is needed to analyze tax avoidance, especially in imperfect capital markets, due to the existence of information asymmetries (Stiglitz, 1985). Finally, the national ICV certification measures the total payout amount, which the government and authorities have proven to support and assist the economy and logistics and create sustainable and local values in every country (Vidal et al., 2021).

2.1. Corporate Sustainability, Corporate Social Responsibility, and Tax Avoidance

Corporate sustainability refers to the initiative taken by corporations to create long-term value for their stakeholders in the social, economic, and environmental dimensions (Ashrafi et al., 2018). Corporate sustainability has become a central ethical element in any strategy, focusing more on transparency in reporting (Ashrafi et al., 2018). Sustainability falls under the umbrella of Corporate Social Responsibility (CSR), which is defined by Sheehy (2012) as a "private self-regulation" of businesses, where the ethical and philanthropic aspects of business activities are focused on more than the economic or environmental aspects. Previous studies showed mixed results on the relationship between tax avoidance, corporate sustainability, and corporate social responsibility. Some empirical studies suggest that firms increase their sustainability performance and issue CSR reports to stakeholders to conceal their tax avoidance activities, which, in turn, helps firms create extra profits unethically (Bisig, 2017). This suggests a positive relationship between tax avoidance activities and corporate sustainability, where firms engage in more sustainable initiatives and practices that boost their reputation while avoiding more taxes (*ibid*). Likewise, Davis et al. (2016) provide evidence that higher CSR firms avoid more taxes and tend to omit tax information from their reports so that it does not gain any attention. Upon examining 40 random sustainability reports, Davis et al. (2016) found that 47.5% of these firms do not report tax information. The remaining firms drastically vary with the amount and quality of tax information provided. Also, highly socially responsible firms tend to engage in tax lobbying activities (Davis et al., 2016). Tax lobbying uses tax payments to influence governmental members for special interests, like reducing tax payment policies (Barrik & Alexander, 2014). More recently, Alsaadi (2020) provided evidence that firms with high CSR practices were more likely to avoid paying their corporate taxes in Europe from 2008 to 2016, suggesting that these firms use CSR to hedge against the potential negative consequences of their avoidance practices.

In contrast, other previous empirical studies state that by paying their taxes, firms engage in socially responsible activities (Bisig, 2017). This is backed up by the argument that firms' taxes directly contribute to social welfare, therefore performing their ethical responsibilities towards their stakeholders (*ibid*). Scholars also state that firms are driven by their values and beliefs to contribute to socially responsible activities and do not need tax-avoiding motives to have high CSR activities (Zeng, 2019). He suggests a negative relationship between corporate sustainability and tax avoidance (Zeng, 2019). Similarly, Lanis and Richardson (2012) argue that more socially responsible firms are less likely to engage in tax-aggressive or tax-avoiding activities. Hoi et al. (2013) results also prove the existence of the negative relationship, arguing that firms with low CSR activities are more likely to undertake aggressive measures to avoid tax payments in the US from 2003 to 2009. These results are consistent with the Stakeholders theory, which predicts that managers (agents) will try their best to work in the interest of several stakeholders (principles), including shareholders, customers, and the local community (Alshehhi et al., 2023; Harrison and Wicks, 2013). Corporate managers tend to comply with rules and regulations to legitimate their activities and gain more acceptance in the local community (Deegan, 2014). The UAE business environment is characterized by high competition and customer orientation, with conservative cultural values such as high power distance, uncertainty avoidance, and collectivism (Hofstede, 1984). These local factors may encourage corporate compliance with laws and regulations and community support. Therefore, based on most previous empirical studies and the Agency's theoretical self-interest predictions, this paper attempts to hypothesize that:

(H_1): There is a significant positive relationship between corporate tax avoidance and sustainability activities in the UAE emerging market.

2.2. Tax Avoidance and Regulatory Approach

Tax avoidance is using tax allowances and reliefs in several ways, such as re-characterizing or re-labeling a transaction to avoid paying taxes, which will reduce the income tax paid by an individual or a company (Bird and Davis-Nozemack, 2016). Tax avoidance often entails fabricated, fraudulent transactions that serve no other purpose than to achieve a tax advantage (*ibid*). Also, the pursuit of transactions and structures to decrease tax liability in a manner that is contrary to the policy or spirit of government legislation is known as tax avoidance (Guenther et al., 2017). The provision of public amenities and the existence of society depend on tax income (ibid). Although few people appreciate paying taxes, they are necessary to fund essential government responsibilities such as public welfare, transportation, and national security (Kim and Im, 2017).

Previous studies show that despite widespread condemnation of tax evasion, it is still prevalent among the world's largest firms (Bird and Davis-Nozemack, 2016). Moreover, other studies argue that some businesses view tax avoidance as a response to the limitation of freedom by tax duties (Kim and Im, 2017). For many years, governments have dealt with tax avoidance through complex laws, but this approach overlooks the crucial work done to demonstrate the importance of non-coercive compliance techniques (*ibid*). While hard law has a role, it is insufficient to abolish tax avoidance (*ibid*). Here, soft law may play a role in tax compliance. CSR can be viewed as a form of soft law, and scholars have argued that the duties of CSR prescribe that firms comply responsibly with tax law (*ibid*). Other scholars have provided an empirical link between tax avoidance and CSR practices by examining the prior approach of hard law, the potential of soft law, and the existing work in CSR, as follows in the next sub-sections.

2.2.1. Tax avoidance and hard law

Hard law is the core of any tax system with actual mandates and consequences (Bird and Davis-Nozemack, 2016). It fosters global governance by enforcing compliance through sanctions, facilitating clarity and certainty of tax duties, and encouraging formal and international tax regulations to manage diverse businesses (*ibid*). A tax system can only function based adequately on concrete hard law (Kim and Im, 2017). Moreover, Bird and Davis-Nozemack (2016) argue that the state's power backs hard law regulations, which is the bedrock of every effective tax system. It fosters global governance by enforcing compliance through sanctions, facilitating clarity and certainty of tax duties, and encouraging formal and international tax regulations to lead a wide range of businesses (*ibid*). A classic deterrence model uses hard law to impose punishments, but a deterrence model is not always the best way to stop corporate tax avoidance (Kim and Im, 2017). It is challenging to devise a severe penalty to dissuade bad company behavior because sanctions cannot jeopardize a company's freedom (*ibid*). The default sanction becomes monetary fines (Bird and Davis-Nozemack, 2016). As a result, businesses may do an economic cost-benefit analysis to assess whether to engage in unethical behavior (*ibid*). Furthermore, hard law takes a long time to adapt to changing conditions (Guenther et al., 2017). More specifically, the UAE follows a codified legal system, which mainly specifies all tax regulations and implementation procedures in a competitive, fast-changing business environment. So, the corporate tax avoidance behavior may depend on the Agency theory, which predicts that agents (management) aim to maximize shareholders' wealth and their private interests (Duhoon and Singh, 2023). Therefore, based on previous empirical studies which show difficulties in implementing hard laws, especially in a changing business environment, and the management agency behavior to maximize shareholder's wealth, this paper attempts to hypothesize that:

(H_2): There is a significant positive relationship between hard laws and tax avoidance in the UAE emerging market.

2.2.2. Tax avoidance and soft law

Soft law refers to norms or practices with many of the characteristics of legal regulations but does not have the authority to impose binding responsibilities on those expected to follow them (Bird and Davis-Nozemack, 2016; Christians, 2007). Soft law can take many forms, but some examples include NGO legislation, official policy pronouncements, and private monitoring mechanisms or agreements that embody norms (Bird and Davis-Nozemack, 2016). In contrast to hard law, soft law may compensate for a hard law system's deficiency. Guenther et al. (2017) find that soft law allows for flexibility and can be influenced by public values. Soft law facilitates the formation of the agreement and, as a result, encounters less opposition and defiance in its execution, which is very important in the context of tax compliance (*ibid*). Some scholars argue that taxpayers comply with tax laws for various reasons other than the threat of hard law sanctions (Bird and Davis-Nozemack, 2016). These variables can be encouraged through non-coercive measures (*ibid*). Thus, the subtle prod of soft law is a valuable contrast to the sharp force of hard regulation in curbing tax avoidance (*ibid*). Although corporate tax avoidance behavior may depend on private interests, corporations must still satisfy the local community's social needs and evaluate the legitimacy of tax avoidance decisions. So, corporations may respond to voluntary tax initiatives to enhance their public image and acceptance. Therefore, based on previous empirical studies and the agency theoretical framework, this paper attempts to hypothesize that:

(H_3): There is a negative relationship between soft laws and tax avoidance in the UAE emerging market.

2.3. National In-Country Value and Corporate Sustainability

National In-Country Value (ICV) is the total spending of the country that the government will help in economic growth and development and strengthen the local supply chain (Al Shezawi and Khan, 2018). The National In-Country Value (ICV) concept could be supportive in society because it can bring freshly created values that will assist the development of the economy and immunize the local communities with advanced social security and sustainable environmental protection (Vidal et al., 2021). These initiatives have significantly changed the national economy, promoted youth development, and played a major role in the future evolution of human skills (Al Shezawi and Khan, 2018). National In-Country Value (ICV) certification aims to take advantage of promising successful ideas and value-creation opportunities that can be achieved in the country (Vidal et al., 2021). Despite this, the ICV concept seems complex and has many effects, measures, and multiple horizons. Nevertheless, the target of any international company is to bring the ICV to allow the best winning strategies by creating maximum value for both the host country and the company (*ibid*). To achieve this, the company should be capable of estimating and identifying the possibilities of creating the In-Country (ICV) concerning the project, which will be executed in the host country with total transparency (*ibid*).

The National In-country Value (ICV) activities usually serve the private industrial sector and target substantial domestic local value. National In-country Value (ICV) can play a significant role in creating a sustainable addition to local companies by elevating their banking performance, management tools, and prospective development skills in the future. Meanwhile, ICV will participate notably in the movement of the communities by bringing creative and innovative ideas to upgrade the infrastructure and push it forward by using the latest technologies in building bridges, undergrounds, and well-studded roads, which will help in creating smooth traffic for the people, and the goods (Vidal et al., 2021). National In-country Value (ICV) activities can go further in helping the industrial sector by implementing the latest technologies, such as water designation plants and bringing potable water for the communities in agriculture and the factories (Vidal et al., 2021). Thus, National In-country Value (ICV) is a supportive and promising way to establish sustainable and local benefits in countries. National In-country Value (ICV) procedures could affect the host country system through the activities developed in collaboration with the project but outside its initial range (Vidal et al., 2021). Previous studies show a shortage of ICV studies and its influence on corporate sustainability. Based on scholarly arguments concerning the positive role of ICV in the local community and the Stakeholder theory framework, which focuses on companies serving multiple interest groups, this paper attempts to hypothesize that:

(H_4): There is a positive relationship between ICV and corporate sustainability in the UAE emerging market.

3. METHODOLOGY AND DATA

3.1. Data Collection

This paper utilizes the inductive approach, whereby observations and information gathering are used to build and test theories (Basias and Pollalis, 2018). A quantitative research approach was employed to clarify causality and provide the analysis (*ibid*) on a large-scale regarding value and statistics (Soiferman, 2010), in contrast to a qualitative research approach using interviews, which requires more resources (AlSuwaidi et al., 2024; Bulbul et al., 2024; Ghazal, 2024; Irsyadillah et al., 2023; Solaimani et al., 2020). For this paper, primary data was collected through a survey instrument. The term survey refers to a systematic data collection method using a sample drawn from a specified larger population (Schwarz et al., 1999). The survey was manually constructed based on previous studies concerning tax avoidance and sustainability (Alsaadi, 2020; Bisig, 2017; Davis et al., 2016), tax avoidance and regulation approach (Bird and Davis-Nozemack, 2016; Christians, 2007); and ICV (Al Shezawi and Khan, 2018; Vidal et al., 2021). The survey instrument consists of five sections (The survey instrument is available from the author upon request). The first section covers the area of tax avoidance and corporate sustainability (Q1 to Q6). The second section explores the relationship between hard/soft laws and tax avoidance (Q7 to Q13). The third section deals with ICV and sustainability (Q14-Q20). Sections four and five show organizational characteristics (Q21-Q25) and respondents' demographic characteristics (Q26-Q31). The Likert scale of 5 points was used to measure the extent of respondents' perceptions; then, the arithmetic mean was used to average the responses in each section.

The data collection process consisted of three main phases. First, the Microsoft Forms software was used to prepare an online survey version. The main advantage of online surveys is the ability to reach a larger population and, therefore, gather more data. Online surveys are also more cost-effective and time-effective, and the internet presents the advantage of quick responses. However, the online survey is accompanied by the risk of incompletion, where the respondents need to fill out all the requirements or do the survey altogether (Schwarz et al., 1999). Second, the online survey was emailed during June and July 2024. Respondents were selected using a simple random sample of accountants in private and public companies in the UAE. The sample frame used is the Federal Chamber of Trade and Commerce list of active UAE companies as of 2023. We distributed a total of 450 surveys, of which 103 completed surveys were successfully received, an acceptable response rate of 23% compared to other relevant studies. The sample represents various population characteristics such as firm size, type, and ownership. Table 1 shows the characteristics of the survey respondents and organizational structure. Males constitute (60.2%) of the sample size, while females are (39.8%). The majority of respondents were accountants (44.7%), well-experienced with more than 10 years of experience (37.9%), and well-educated with a Bachelor's degree (69.9%). The data reveals that most of the sample includes small to medium-sized organizations (39.8% and 18.4%) with 100% national ownership status (48.5%), belonging to the private sector (52.4%), and in the service industry (30.1%). Table 2 outlines the factor analysis and reliability measure of survey instrument reliability measure of the survey. All survey sections have reliable outcomes, using Cronbach's alpha statistic above the benchmark of 0.50, except for section 2B: Soft laws, perhaps due to the small number of questions (Nunnally, 1978).

Table 1: Survey characteristics

Organizations' internal characteristics			
Ownership structure	**(%)**	**Legal status**	**(%)**
100% national	48.5	Shareholding	35.9
Mix	45.6	Partnership	19.4
Foreign	5.8	Joint venture	8.7
Organization type		LTD	12.6
Government	47.6	Other	23.3
Private	52.4	Business activity	(%)
Number of employees	(%)	Industry	7.8
Less than 100	39.8	Trading	23.3
101-500	18.4	Services	30.1
501-1000	13.6	Financial	26.2
More than 1000	28.2	Other	12.6
Respondents' demographic characteristics			
Job title	**(%)**	**Gender**	**(%)**
Accountant	44.7	Male	60.2
Senior accountant	14.6	Female	39.8
Financial manager	19.4	Age	(%)
Other	21.4	Less than 30	45.6
		31-40	24.3
Education	(%)	41-50	19.4
Bachelor's degree	69.9	51-60	7.8
Master's degree	24.3	More than 60	2.9
Doctorate	1.0	Work experience	(%)
Other	4.9	0-1 years	13.6
		2-5 years	26.2
Nationality		6-10 years	22.3
Local	59.2	More than 10 years	37.9
Non-local	40.8		

Table 2: Survey instrument reliability measure

Variables	Factor analysis cumulative Explained variance* (%)	Cronbach's α
Section 1 (TAX): (Q1 to Q6)		
Tax avoidance and sustainability	48.27	0.753
Section 2A (HL): (Q7 to Q11)		
Complex laws and tax avoidance	73.38	0.603
Section 2B (SL): (Q12 to Q13)		
Soft laws and tax avoidance	89.96	0.364
Section 4 (ICV): (Q14 to Q20)		
ICV and sustainability	100	0.822
Overall (Q1 to Q20)	100	0.814

*Extraction method: Principal component analysis using Varimax rotation

The findings show that the tax avoidance (Q1-Q6) achieved a cumulative explained variance of 48.27% with Cronbach's alpha of 0.75. Likewise, Hard laws (Q7-Q11) and Soft laws (Q12-Q13) obtained cumulative explained variance of 73.38% and 89.76% and Cronbach's alpha of 0.60 and 0.36, respectively. ICV and corporate sustainability (Q14-Q20) obtained a cumulative explained variance of 100 with Cronbach's alpha 0.82. In addition, the overall findings (Q1-Q20) show reliable outcomes as the cumulative explained variance has a value of 100 and Cronbach's alpha of 0.81.

Finally, the response data collected using the surveys was transferred into codes and entered manually into the statistical software to test the study hypotheses. Ethical permission was obtained for the data management process, and all respondents were informed of the purpose of the study, that the findings would be used only for academic purposes, and that the survey information was strictly confidential. The study's main multiple regression analysis (OLS) model is as follows (Equation 1) (El-Bannany et al., 2022).

$$RP = \alpha + \beta\_1\ (OC) + \beta\_2\ (RC) + \varepsilon \quad (1)$$

Where:

RP = Respondents' perceptions on the relationships between tax avoidance and corporate sustainability (TAX); tax avoidance and hard laws (HL); tax avoidance and soft laws (SL); National In-country certification and corporate sustainability (ICV). OC Organizational internal characteristics. RC Respondents' demographic characteristics. ε = error term.

4. RESULTS AND DISCUSSIONS

4.1. Descriptive Statistics

The descriptive statistics for the study variables (Table 3) illustrate the mean, standard deviation, maximum, and minimum for the Tax Avoidance, Corporate Sustainability, and National In-Country Value variables. The main independent variable, Tax avoidance

Table 3: Descriptive statistics

Variables	n	Min	Max	Mean	STD	Skewness	Kurtosis
TAX	103	1.0	4.5	3.01	0.81	−0.52	−0.32
HL	103	1.2	4.8	3.40	0.68	−0.85	0.63
SL	103	1	5	3.13	0.89	−0.46	−0.64
ICV	103	1.0	5.0	3.80	0.62	−1.31	3.86
OWN	103	1	3	1.57	0.60	0.53	−0.60
LEG	103	1	5	2.66	1.59	0.35	−1.49
TYP	103	1	2	1.52	0.50	−0.10	−2.03
EMP	103	1	4	2.30	1.26	0.28	−1.59
ACT	103	1	5	3.13	1.14	−0.05	−0.79
JOB	103	1	4	2.17	1.22	0.39	−1.47
NAT	103	1	2	1.41	0.49	0.38	−1.89
EDU	103	1	4	1.38	0.70	2.27	5.53
GEN	103	1	2	1.40	0.49	0.42	−1.86
AGE	103	1	5	1.98	1.11	0.91	−0.04
EXP	103	1	4	2.84	1.08	−0.35	−1.23

TAX: Tax avoidance (Q1 to Q6), HL: Hard laws (Q7 to Q11), SL: Soft laws (Q12 to Q13), ICV: National In-country Value certification (Q14 to Q20), OWN: Organization ownership structure (Q21), LEG: Organization legal status (Q22), TYP: Organization type (Q23), EMP: Number of employees (Q24), ACT: Business activity (Q25), JOB: Job title (Q26), NAT: Nationality (Q27), EDU: Education degree (Q28), GEN: Gender (Q29), AGE: Age (Q30), EXP: Total years of experience (Q31) and corporate sustainability (TAX) has a moderate mean response value of 3.01 on a Likert scale of 5°, with a low standard deviation of 0.810. Likewise, HL and SL have moderately high mean values of 3.40 and 3.13, respectively, with low standard deviations of 0.68 and 0.89. ICV has the highest mean, 3.80, on a Likert scale of 5°, with the lowest standard deviation, 0.62. The independent variables LEG, ACT, and AGE have the highest maximum value of five. NAT and GEN have the lowest standard deviation of 0.49. The Mean value of TYP is 1.52, which suggests that most organizations are private agencies. ACT has the highest mean value of 3.13. The EDU has the lowest mean value of 1.38, with a standard deviation of 0.70, reflecting that most respondents have bachelor's degrees. JOB's mean value of 2.17 shows that most respondents are accountants or senior accountants. All variables have acceptable skewness and Kurtosis below the benchmark of 5°, except the independent variable EDU.

4.2. Frequency Analysis

4.2.1. Frequency analysis for tax avoidance and corporate sustainability

Table 4 highlights the frequency distributions of respondents' perceptions of the relationship between tax avoidance and corporate sustainability. In this paper, the five-point Likert scale is interpreted using the rule of thumb as follows: Strongly disagree (from 1 to 1.8), disagree (from 1.81 to 2.60), neutral (from 2.61 to 3.40), agree (from 3.41 to 4.20), and strongly agree (from 4.21 to 5) (Pimentel, 2010). TAX has an overall average of 3.01, which indicates that respondents have a neutral response towards the impact of tax avoidance on sustainability (Table 4). Furthermore, Table 5 indicates the average response on TAX is not significantly different compared to a mean value of 3 (Likert scale of 5°) using the one-sample t-test statistic, as a $P = 0.87$ is greater than the confidence level of 5%. Therefore, the first hypothesis (H_1) stating, "There is a significant positive relationship between tax avoidance and corporate sustainability," is not accepted. This result contradicts previous empirical studies, suggesting negative or positive relationships (Davis et al., 2016; Zeng, 2019). In addition, this insignificant feedback from respondents on TAX may be due to the developing nature of the tax system in a local business environment. There are three newly developed types of taxes in the UAE: Value-added tax (2018), excise tax (2017), and corporate income tax (2023). Corporate tax avoidance practices seem not yet mature enough to influence community welfare, and respondents may still be unaware of their consequences compared to those of more developed countries.

Table 4: Frequency analysis for tax avoidance (TAX)

Q.	Statements		Mean	STD
1	There is a positive relationship between tax avoidance and corporate sustainability.	103	2.58	1.28
2	There is a positive relationship between tax lobbying activities and company social responsibility. (Tax lobbying is the practice of using tax payments to influence state agencies for a particular interest	103	2.98	1.22
3	Sustainable activities are a means to boost the reputation of a tax-avoiding company.	103	3.12	1.23
4	Socially responsible activities are used to hedge against the negative consequences of tax avoidance activities.	103	3.34	1.12
5	High Corporate Social Responsibility companies omit tax information so they do not gain public attention.	103	2.84	1.21
6	Firms that avoid taxes may undertake Corporate Social Responsibility to create an impression of compliance with social norms and to avert the negative impacts of avoiding taxes on society.	103	3.21	1.24
	Average (TAX)		3.01	

4.2.2. Frequency analysis for hard and soft laws with tax avoidance

Tables 6 and 7 outline the respondent's opinion on the relationship between hard/soft laws and tax avoidance. The average response to HL is 3.40, indicating respondents have a neutral reaction towards hard laws. Likewise, the average response to SL is 3.13, indicating respondents have a neutral reaction towards soft laws using the rule of thumb interpretation of the Likert scale. However, Table 5 indicates the average response on HL is significantly different compared to a mean value of 3 on (Likert scale of 5°) using the one-sample t-test statistic, as a $P = 0.001$ is less than the confidence level of 5%. Therefore, the second hypothesis

Table 5: One-sample test statistic

Variables	Test value=3					
	T	Df	Sig. (2-tailed)	Mean difference	95% confidence Int. of the Diff.	
					Lower	Upper
TAX	0.161	102	0.873	0.012	−0.146	0.172
HL	6.00	102	<0.001	0.407	0.273	0.542
SL	1.49	102	0.139	0.131	−0.043	0.305
ICV	13.05	102	<0.001	0.804	0.682	0.926

All variables' abbreviations are explained in Table 3. **, * indicate significance at the 0.01 and 0.05 confidence levels, respectively (2-tailed)

Table 6: Frequency analysis for hard laws (HL)

Q.	Statements	n	Mean	STD
7	There is a positive relationship between imposing sanctions and tax avoidance.	103	3.53	1.03
8	Companies viewed tax avoidance as a response to the limitations imposed by tax duties.	103	3.33	1.12
9	There is a positive relationship between the enforcement of rules in the tax system and the increase in tax avoidance	103	3.42	1.04
10	The severity of strict consequences in hard law can be ineffective at reducing tax avoidance.	103	3.13	1.29
11	While hard law is important, it is insufficient to eradicate tax avoidance.	103	3.63	1.01
	Average (Hard Laws)		3.40	

Table 7: Frequency analysis for soft laws (SL)

Q.	Statements	n	Mean	STD
12	There is a negative relationship between soft law and tax avoidance	103	3.02	1.12
13	By reducing the risk of penalties in soft law, companies are less likely to avoid paying taxes.	103	3.24	1.15
	Average (Soft Laws)		3.13	

(H_2) stating, “There is a significant positive relationship between hard laws and tax avoidance in the UAE emerging market,” is accepted, consistent with previous studies (Kim and Im, 2017). The significant feedback from respondents on the influence of hard laws may be due to a well-developed legal system in the UAE since 1970, which depends on civil law with mixed federal and local legal structures. In contrast, Table 5 indicates the average response on *SL* is not significantly different compared to a mean value of 3 on (Likert scale of 5°) using the one-sample t-test statistic, as a P = 0.139 is greater than the confidence level of 5%. Therefore, the third hypothesis (H_3), stating that “There is a significant negative relationship between soft laws and tax avoidance in the UAE emerging market,” is not accepted, inconsistent with previous studies such as Guenther et al. (2017). This result reflects the newly developed nature of the tax system in the UAE and necessitates more efforts to encourage soft laws such as tax incentives.

Table 8: Frequency analysis for national in-country value certification (ICV)

Q.	Statements	n	Mean	STD
14	There is a positive relationship between In-Country Value certification and corporate sustainability.	103	3.74	0.88
15	In-country value certification is the activity that serves the private sector and targets sustainable domestic value, which can help the industrial sector by implementing the latest technologies.	103	3.75	0.84
16	In-Country Value certification can play a huge role in creating a sustainable addition to local companies.	103	3.80	0.89
17	The duty of the In-Country Value certification is to help in economic growth by creating strategies to strengthen the local supply chain.	103	3.84	0.91
18	In-Country Value certification creates sustainability to local companies by elevating its banking performance, management tools and prospective development skills.	103	3.85	0.84
19	In-Country Value certification contribution created a strategy which directs at enhancing the goods and services with the help of human resources, business growth, procurement, training and development skills.	103	3.81	0.96
20	In-Country Value certification presence have obtained a significant change in the national economy, promotes to youth development and is a major role in the future evolution of the human skills.	103	3.84	0.94
	Average (ICV)		3.80	

4.2.3. Frequency analysis for the national in-country value certification and corporate sustainability

Table 8 highlights the frequency distributions of respondents’ perceptions of the effect of *ICV* on corporate sustainability. The overall average response of ICV is 3.80, which shows moderate agreement among respondents on the impact of ICV on corporate sustainability. Furthermore, Table 5 indicates the average response on ICV is significantly different compared to a mean value of 3 on (Likert scale of 5°) using the one-sample t-test statistic, as a P = 0.001 is less than the confidence level of 5%. Therefore, the Fourth hypothesis (H_4), which states, “There is a positive relationship between ICV and corporate sustainability in the UAE emerging market,” is accepted, consistent with previous studies such as Vidal et al. (2021). This highly significant feedback from respondents may be due to the successful ICV program implementation by the Ministry of Industry and Advanced Technology (MOIAT), including thirty-one local and federal government entities and over three thousand participating companies in 2024.

4.3. Correlation Matrix

Table 9 presents the Pearson product-moment correlation matrix to investigate the relationships between the study variables. The outcomes reveal a significant positive correlation between TAX, HL, and SL with significant coefficients of 0.43 and 0.38, respectively, at the 1% confidence level. There is also a positive relationship between ICV and HL with significant coefficients of 0.45 at the 1% confidence level. This result indicates that companies that follow ICV regulations usually feel the influence of hard laws on tax avoidance. In addition, there is a relationship between ACT and ICV with a significant positive coefficient of 0.42 at the 5% confidence level, which indicates that the type of business activity such as trading, service, or financial has favorable respondents’ opinion on the positive impact of ICV on corporate

Table 9: Correlation matrix

	TAX	HL	SL	ICV	OWN	LEG	TYP	EMP	ACT	JOB	NAT	EDU	GEN	AGE	EXP
TAX	1														
HL	0.43**	1													
SL	0.38**	0.29**	1												
ICV	0.07	0.45**	0.16	1											
OWN	0.03	−0.10	−0.03	−0.09	1										
LEG	0.03	0.07	0.18	0.12	−0.22*	1									
TYP	−0.18	−0.04	0.04	0.04	0.03	−0.08	1								
EMP	−0.15	0.00	−0.07	0.19*	0.02	−0.15	−0.06	1							
ACT	0.02	0.13	0.21*	0.42**	−0.04	−0.05	−0.04	0.36**	1						
JOB	−0.04	0.03	0.06	0.11	0.06	−0.16	0.05	0.11	0.09	1					
NAT	−0.32**	−0.12	−0.03	0.00	0.13	−0.15	0.35**	0.08	0.11	0.10	1				
EDU	−0.05	−0.07	−0.20*	−0.01	0.03	−0.01	−0.01	0.23*	−0.01	0.07	−0.11	1			
GEN	0.10	0.04	0.14	0.02	0.01	0.17	−0.29	0.13	0.13	−0.06	−0.43**	0.15	1		
AGE	−0.3**	−0.16	−0.08	0.06	0.11	−0.22*	0.24*	0.31**	0.18	0.35**	0.35**	0.19*	−0.09	1	
EXP	−0.22*	−0.05	−0.00	0.07	0.13	−0.09	0.31**	0.25*	0.15	0.37**	0.34**	0.22*	−0.04	0.75**	1

All variables’ abbreviations are explained in Table 3. Correlations coefficients are provided. **, * indicate significance at the 0.01 and 0.05 confidence levels, respectively (2-tailed) sustainability. NAT has a significant negative correlation with TAX, with a coefficient of −0.32 at the 1% level. At the same time, EDU has a significant negative correlation with SL, with a coefficient of −0.20 at the 1% level. This result indicates that more educated respondents do not favor using soft laws to reduce tax avoidance. Finally, AGE and EXP have a significant negative correlation of −0.30 and −0.22 with TAX at different confidence levels. This result indicates that respondents with high age and experience have a low perception of the impact of tax avoidance on corporate sustainability.

4.4. Multiple Regression Analysis (OLS) Model

4.4.1. Determinants of tax avoidance and corporate sustainability

Table 10 Model (A) shows the relationships between the dependent tax avoidance and corporate sustainability (TAX) and several independent variables using multiple regression analysis (OLS). The results indicate a significant negative impact of respondents' NAT and AGE on Tax Avoidance (TAX) with beta coefficients of −0.28 and −0.33 at the 5% confidence levels. This result implies that old and educated respondents do not perceive the relationship between tax avoidance and corporate sustainability, consistent with the results in Table 9. This result may reflect the newly developed nature of the tax system in the UAE and the importance of increasing awareness of its consequences in the future. The overall analysis model has an adjusted R-square (0.10) with a significant F-statistic (2.11) at the 5% confidence level. Furthermore, Table 11 (TAX) indicates the absence of heteroscedasticity using the Breusch Pagan Test statistic because the P = 0.97 is greater than the cut-off confidence level of 5%.

4.4.2. Determinants of hard/soft laws and tax avoidance

Table 10 Model (B) consists of hard laws/tax avoidance *HL* (Q7-Q11) using multiple regression analysis (OLS). The results show no significant impact of any independent variable. In contrast, Model (C) comprises soft laws and tax avoidance *SL* (Q12-Q13). The results show a significant positive impact of ACT on SL with a beta coefficient of 0.24 at the 5% confidence level, consistent with Table 9. This result implies that, In addition, the results show a significant negative impact of EDU on SL with beta coefficients of −0.20 at the 10% level. This ACT and EDU results imply that well-educated respondents and/or those working in industries such as service or financial perceive a low impact of soft laws on tax avoidance, consistent with the results in Table 9. The overall analysis model has an adjusted R-square (0.07) with a significant F-statistic (1.75) at the 10% level. Furthermore, Table 11 (SL) shows no sign of heteroscedasticity when using the Breusch Pagan Test statistic with an insignificant P = 0.73, less than the cut-off confidence level of 5%.

Table 10: Multiple linear regression model (OLS)

Variables	Dependent variables			
	(A)	(B)	(C)	(D)
	TAX	HL	SL	ICV
(Constant)	3.82***	3.45***	1.95***	2.93***
OWN	0.09	−0.06	0.02	−0.03
LEG	−0.05	0.02	0.16	0.17*
TYP	−0.06	0.02	0.11	0.09***
EMP	−0.12	0.03	−0.09	0.10
ACT	0.15	0.16	0.24**	0.41
JOB	0.06	0.09	0.12	0.10
NAT	−0.28**	−0.12	−0.01	−0.09
EDU	−0.01	−0.07	−0.20*	−0.03
GEN	−0.04	−0.03	0.16	−0.07
AGE	−0.33**	−0.31*	−0.13	−0.03
EXP	0.10	0.17	0.07	0.00
R2	0.20	0.09	0.17	0.23
Adjusted R^2	0.10	−0.01	0.07	0.13
Durbin-Watson	1.92	2.11	1.99	2.00
F-statistic	2.11**	0.84	1.75*	2.49***
VIF (max/min)	2.6/1.0	2.6/1.0	2.6/1.0	2.6/1.0
n	103	103	103	103

All variables' abbreviations are explained in Table 3. Standardized Beta coefficients are provided—N=number of observations. Notations ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 confidence levels, respectively (2-tailed)

4.4.3. Determinants of ICV and corporate sustainability

Table 10 Model (D) indicates the relationships between the dependent ICV and several independent variables using multiple regression analysis (OLS). In this paper, ICV consists of National In-Country certification and corporate sustainability (Q14-Q20). The results show a significant positive impact of TYP on ICV perception with a beta coefficient of 0.09 at the 1% confidence level. This result highlights that respondents working in the private sector have a more positive perception of the impact of ICV on corporate sustainability. Furthermore, Table 11 (ICV) shows no sign of heteroscedasticity when using the Breusch Pagan Test statistic, as the P = 0.86 is less than the cut-off confidence level of 5%.

Table 12 provides more details on the influence of the respondents' firms and demographic characteristics using the multiple regression models with categorical variables. Model A results show that AGE (51-60) has a significant negative relationship with TAX with a beta coefficient of −0.33 at the 5% confidence level, consistent with Table 10. This result implies that respondents at a higher age level than younger respondents do not perceive the relationship between tax avoidance and corporate sustainability. In addition, this result highlights the need for training to increase public awareness of corporate tax avoidance practices and sustainability, especially in a newly developing tax environment such as the UAE. Similarly, Table 12 Model B results show that AGE (51-60) has a significant negative relationship with HL with a beta coefficient of −0.44 at the 1% confidence level, consistent with Table 10. This result implies that respondents at a higher age level than younger respondents do not perceive the relationship between hard laws and corporate tax avoidance practices.

Table 12 Model C results show that all ACT categories have a significant positive relationship with SL with coefficients of 0.53, 0.51, 0.49, and 0.45 at different confidence levels. Compared to industrial companies, this result implies that respondents working

Table 11: Breusch-Pagan test (heteroscedasticity)

Variables	BP statistic	Df	P-value
TAX	3.729	11	0.977
HL	7.755	11	0.735
SL	7.429	11	0.763
ICV	6.392	11	0.864

Table 12: Multiple linear regression model (OLS) with categorical variables

Variables	Dependent variables			
	(A)	(B)	(C)	(D)
	TAX	HL	SL	ICV
(Constant)	3.11***	3.08***	1.95***	2.72***
OWN (Mixed)	0.08	−0.01	0.06	−0.07
OWN (100% Foreign)	0.15	−0.12	0.01	−0.02
LEG (partnership)	0.07	−0.11	0.09	−0.05
LEG (joint venture)	0.06	−0.03	0.11	−0.08
LEG (LTD)	−0.12	−0.02	0.08	0.10
LEG (other)	0.04	0.02	0.17	0.17
TYP (Private)	−0.07	−0.03	0.11	0.19
EMP (101-500)	−0.05	0.10	0.10	0.13
EMP (501-1000)	−0.04	0.14	−0.02	0.26**
EMP (More than 1000)	−0.00	0.03	0.00	0.05
ACT (Trading)	0.10	0.02	0.53***	0.37*
ACT (Service)	0.17	0.31	0.51**	0.66***
ACT (Financial)	0.27	0.29	0.49**	0.69***
ACT (Other)	−0.00	−0.01	0.45**	0.62***
JOB (Senior Accountant)	0.03	0.21	0.00	0.06
JOB (Financial Manager)	0.00	0.11	0.01	−0.05
JOB (Other)	0.00	0.11	0.07	0.15
NAT (Non-national)	−0.204	−0.07	−0.01	−0.15
EDU (Masters)	0.01	−0.14	−0.23*	−0.12
EDU (Doctorate)	0.06	0.05	−0.01	−0.03
EDU (Other)	0.02	0.01	−0.10	0.01
GEN (Female)	−0.08	−0.20	0.08	−0.11
AGE (31-40)	0.12	0.21	0.32*	0.02
AGE (41-50)	−0.07	−0.17	0.13	−0.02
AGE (51-60)	−0.33**	−0.44***	−0.06	−0.01
AGE (More than 60)	−0.13	0.00	−0.05	0.03
EXP (2-5)	−0.07	0.13	−0.12	0.14
EXP (6-10)	−0.26	0.04	−0.25	0.10
EXP (More than 10)	−0.00	0.21	−0.19	0.11
R^2	0.34	0.31	0.36	0.35
Adjusted R^2	0.08	0.04	0.11	0.09
Durbin-Watson	2.0	2.1	2.3	2.0
F-statistic	1.31	1.15	1.45	1.37
VIF (Max/Min)	7.0/1.3	7.0/1.3	7.0/1.3	7.0/1.3
n	103	103	103	103

All variables' abbreviations are explained in Table 3. Standardized Beta coefficients are provided—N=number of observations. Notations ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 confidence levels, respectively (2-tailed)

in trading, service, financial, and others perceive more influence of soft laws on corporate tax avoidance practices. This result may be due to the nature of business, which requires more flexibility to deal with the changing business environment, especially in a highly competitive market such as the UAE. Finally, Table 12 Model D results show that EMP (501-1000) has a significant positive relationship with ICV with a beta coefficient of 0.26 at the 5% confidence level. This implies that respondents working in large companies have a more positive view of ICV and sustainability than respondents working in small companies. Again, this result shows the need to extend the training programs to small-size companies to spread awareness and increase ICV practices in the local market. Furthermore, Model C results show that all ACT categories have significant positive relationships with ICV with beta coefficients of 0.37, 0.66, 0.69, and 0.62 at different confidence levels. This vital result implies that respondents working in trading, service, finance, and other companies perceive more value of ICV on sustainability compared to industrial companies. This result is perhaps due to the small sample in this study from the industrial sector, 7.8% (Table 1).

5. CONCLUSION

This paper has investigated the impact of tax avoidance and ICV certification on corporate sustainability within the UAE's emerging market, highlighting the complexities of this relationship. The findings indicate that respondents have a neutral perception of the positive relationship between tax avoidance and corporate sustainability. This result reflects the newly established tax system in the UAE and the need to increase awareness of the potential consequences of a tax system on corporate behavior to ensure effective corporate and national sustainability policies. While tax avoidance practices may provide immediate financial benefits, they can detract from corporate sustainability by damaging reputational and stakeholder relationships. In addition, respondents support the positive relationship between hard laws and tax avoidance but are still unaware of the usefulness of soft laws in reducing tax avoidance. This result implies that national policy should focus on more soft laws, such as tax incentives, to encourage corporate compliance in the future. Furthermore, the findings show that respondents highly support the influence of ICV on sustainability. While respondents indicate that ICV certification promotes local value creation and supports sustainable business practices, hard laws can undermine these efforts by weakening the ethical foundation of corporate behavior and encouraging tax avoidance. This tension presents a significant challenge for companies operating in the UAE, as they must navigate economic efficiency demands while upholding their commitments to sustainability and ethical practices.

Other findings in this paper highlight the vital respondents' characteristics, such as nationality, age, education, company size, type, and activity, which impact the relationships between tax avoidance, soft laws, hard laws, ICV, and sustainability practices. To ensure long-term corporate sustainability, businesses in the UAE must balance these dynamics carefully, aligning their strategies with national objectives and global sustainability standards. By avoiding taxes, companies may contribute less to the socioeconomic development of the regions in which they operate, which contradicts the principles of corporate sustainability that emphasize responsibility toward all stakeholders, including governments and communities. In contrast, ICV positively impacts corporate sustainability. By focusing on local content, employment, and the development of regional suppliers, ICV certification aligns corporate activities with broader economic and social goals. This alignment enhances a company's reputation, strengthens its relationships with local stakeholders, and contributes to long-term value creation. Companies that invest in ICV initiatives demonstrate a commitment to sustainable development, which can lead to increased competitiveness and long-term viability. This paper has limitations concerning the small sample size, necessitating larger studies to increase generalizability. Future studies should explore external institutional determinates of ICV certification.

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