Family involvement and corporate tax aggressiveness in French SMEs

PRINCIPLE TOPIC

For many years, taxation was considered to be a complex and costly component of business management. Indeed, the vocabulary that entrepreneurs traditionally used to talk about taxation (heavy charges, administrative burden, risk source, etc.) suggests that taxes were more sustained than managed (Chadefaux and Rossignol, 2006; Hanefah, et al. 2001). However, perceptions about taxation have gradually evolved, and this is reflected in the changes in the tax vocabulary and the emergence of new expressions, such as tax management or tax aggressiveness to define the downward management of taxable income through tax planning activities (Frank et al., 2009; Chen et al., 2010; Lanis and Richardson, 2012). This trend is perhaps inevitable, given the omnipresence of fiscal matters in business transactions, and today's firms are increasingly aware of taxation impact on each management decision (Tomkins et al., 2001). Indeed, firms first need to assess their tax burden before they even begin to examine the choices and incentives that taxation offers. Moreover, the effectiveness of tax aggressiveness is closely tied to how well the tax parameter has been integrated into management decisions. Firms should therefore consider taxation as a homogeneous component of their environment and use it as a development tool in an overall planning perspective (Sholes et al., 2005). However, although tax management means optimizing the tax burden, it should never expose a firm's activity to risks that can generate more costs than savings (Rossignol, 2002).

Large companies are often the focus of attention for evaluating tax aggressiveness strategies, but small and medium-sized enterprises (SMEs) should not be overlooked as they make up a significant part of the economic landscape in many countries and their cumulative impact on society is thus significant. A report from the United Nations Industrial Development Organization (UNIDO) states that SMEs represent 90% of all companies worldwide and that they contribute to 50% to 60% of employment (UNIDO, 2002). Although their tax aggressiveness strategies are often less structured and formalized than those of large companies, SMEs show interesting behaviors in managing fiscal issues. They indicate considerable diversity regarding the sense and position they give to taxation in building corporate strategy but, much like large companies, they are limited to two main logics for action: defensive, seeking to optimize financial profit under fiscal constraint, and proactive, dedicated to achieving high fiscal performance within a global performance objective (Collette, 1998). However, to our knowledge, very few studies have focused on the impact that family involvement might have on tax aggressiveness of the SME in the French context.

Family involvement is a mixed concept. Some define it as the share of the family (degree of ownership) in the capital of the company (Anderson and Reeb, 2003), while others define it with respect to family members working in the company (Mishra and McConaughy, 1999). In our paper, we adopt the definition of Chua and al., (1999), considering family involvement as a substantial family presence in ownership, governance, management, succession, and/or employment. There are various legitimate competing theories on why family firms are likely to be more or less tax aggressive than nonfamily firms.

According to a self-interest perspective, the dynamic of amoral familism would suggest that owning-families would likely be tax aggressive, emphasizing self-interest. The outcomes of such beliefs might be behaviors such as nepotism that could disadvantage company employees and other stakeholders, or competing in the marketplace in ways that could prove harmful to the greater social good (Rosenblatt, de Mik, Anderson, & Johnson, 1985; Schulze, Lubatkin, Dino, & Buchholtz, 2001). Furthermore, Morck and Yeung (2004) have argued that family firms are highly self-interested and merely want to protect their own parochial interests. Thus, the families that own various enterprises would not be inclined to improve the broader societies in which their firms are embedded. Indeed, such family firms may foster corruption, which undermines public confidence as well as the legitimacy of public institutions in order to protect their own interests.

In contrast, according to Stewardship theory, managers identify with their organization and do not instinctively act in an opportunistic way (Davis et al., 1997), through tax aggressiveness strategies. Indeed, a stewardship philosophy has been argued to be common among successful family businesses (Corbetta and Salvato, 2004). Stewardship theory depicts organizational members as collectivists, pro-organizational and trustworthy (Davis et al., 1997). In the realm of stewardship, managers are more concerned about the well-being of the organization and find their identity tied to that of the organization. If the organization's reputation is favorable with internal and external stakeholders, then managers may receive both extrinsic and intrinsic rewards thereby increasing the performance of the organization, while concurrently maximizing their utility through their identification with the organization (Dibrell & Moeller, 2011). In sum, stewardship behaviors refer to actions signifying a collectivist orientation towards an organization's well-being. Stewardship therefore also includes the extent to which individual's express their loyalty/commitment to an organization

which may be a direct result of the wages and/or level of professionalism exerted within the organizational premises (Zahra et al., 2008).

Taken into account these elements, our paper focuses on Familial SMEs' tax aggressiveness. More especially, we intend to analyze the incidence of family involvement on French SMEs' tax aggressiveness by comparing the degree to which family and non-family SMEs are tax aggressive.

METHODS

To analyze French SMEs' tax aggressiveness we collected qualitative data. More especially, we conducted semi-structured interviews with French familial and non-familial SMEs' CEOs in order to understand in depth managerial perceptions and actions. We developed an interview guide to define the main aspects we have to approach with top managers. We asked questions about managers' perception and definition of tax aggressiveness issues, about tax aggressiveness actions they implemented and about the reasons/brakes that have led to these behaviors. 20 CEOs of SMEs were interviewed. Interviews were conducted individually, by phone or face-to-face, and were entirely retranscribed. We followed the principle of information saturation to define the number of interviews we had to do (Baumard et al., 1999). Primary data were analyzed by a content analysis of discourses using NVIVO'10. We coded all discourses, defined the main emerging themes, counted their occurrence of apparition between interviews and developed cross-matrixes to identify relationships between familial involvement and SMEs' tax aggressiveness.

RESULTS AND IMPLICATIONS

French family SMEs are less likely to be tax aggressive than non-family ones. Indeed, the owners of the French family business regard their companies as an extension of themselves and therefore they seek to avoid situations that would generate a negative perception of their organization as this would negatively affect their reputation.

Family SMEs seem to be quite aware of the risk of sanctions for non-compliance with tax regulations, whether deliberate or not. Moreover, family SMEs evaluate the tax impact of their management decisions related to investment, supply, production, marketing, human resources, and financial issues. They also monitor for new developments in the tax system. Our findings allow us to state that family SMEs exploit the opportunities that taxation offers and manage the tax risk. However, our study also emphasizes the absence of a systematic tax scrutiny method for most family and non-family SMEs. Indeed, a large majority of SMEs have no tax information system and need competent and qualified staff able to establish and monitor internal control procedures. Thus, recruiting qualified employees and providing regular training are the major actions that these SMEs now need to take to ensure efficient tax management.

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