


## MANAGERIAL ABILITY AND ACCOUNTING-TAX COMPLIANCE: CROSS-COUNTRY STUDY


**DYENIFFER PACKER EIGENSTUHLER<sup>1</sup>**

*Universidade Comunitária da Região de Chapecó*

 <https://orcid.org/0000-0001-8930-1720>  
[dyeniffer@unochapeco.edu.br](mailto:dyeniffer@unochapeco.edu.br)


**CRISTIAN BAÚ DAL MAGRO**

*Universidade Comunitária da Região de Chapecó*

 <https://orcid.org/0000-0002-7609-5806>  
[crisbau@unochapeco.edu.br](mailto:crisbau@unochapeco.edu.br)

**SADY MAZZIONI**

*Universidade Comunitária da Região de Chapecó*

 <https://orcid.org/0000-0002-8976-6699>  
[sady@unochapeco.edu.br](mailto:sady@unochapeco.edu.br)

### ABSTRACT

Managerial ability comes from capabilities, skills and experiences that reflect on strategic differentials for all organizational levels, being a premise of greater efficiency and accounting and tax knowledge that can bring great benefits to the results of organizations. In this context, this study seeks to verify the influence of managerial skill on the accounting and tax compliance of publicly traded companies at a global level. This research is characterized as descriptive, with a quantitative approach, carried out through documents collection and the data were treated by multiple linear regression. The research population comprises public companies from 28 countries, with a sample of 11,506 companies from 2012 to 2019. In general, the results showed that managerial skill positively influences the level of accounting-tax compliance of companies. When comparing the results between the groups of countries analyzed, it is evident that the country's legal orientation becomes a complementary factor to managerial skill in determining accounting-tax compliance. For example, companies with more skilled managers located in common law countries have greater accounting-tax noncompliance, on the other hand, companies with greater managerial skills from civil law and Muslim countries have greater accounting and tax compliance. The study reinforces the premise that companies from common law countries and with greater managerial skills are concerned with providing higher quality accounting information to external users, placing less emphasis on the use of corporate accounting for tax purposes.

**Keywords:** Corporate Accounting. Legal origin. Tax accounting.

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<sup>1</sup> Address for correspondence: Servidão Anjo da Guarda, 295 | 89809-900 | Chapecó/SC | Brazil.

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## 1 INTRODUCTION

Predominantly, in the business world, senior management, formed by executive directors, financial directors, senior executives, managers and board directors, are responsible for strategic decisions that directly and indirectly affect the performance of corporations (Cui & Leung, 2020). The strategic decisions of the high-ranking teams are based on the level of knowledge about management, skills, competencies and lived and acquired experiences (Hitt et al., 2007). More specifically, it can be inferred that high-level decisions are based on the “managerial skill” built throughout the career (Demerjian, Lev & McVay, 2012).

The aspects of knowledge, competence and experience constitute the managerial skill that subsidizes the most reliable estimates for assertive decisions (Holcomb, Holmes Jr & Connelly, 2009). Management skills make managers more skilled in solving complex problems and recognizing opportunities (Wilson, 2014).

Due to a greater managerial skill, managers are able to more easily capture the interference of organizational results in the stock market (Demerjian et al., 2012; Sun, 2016; Bonsall, Holzman & Miller, 2017) and, in addition, they have the ability to use corporate resources more efficiently (Lee & Yoon, 2020).

Notably, companies with more skilled managers have a more efficient deepening of their competitors and the corporate environment, generating an above-average return to shareholders (Baik et al., 2013; Demerjian et al., 2012; Sun, 2016; Bonsall et al., 2017). Management skills facilitate the reach of strategies (Baik, Farber & Lee, 2011; Demerjian et al., 2012; Holcomb et al., 2009) and, even so, few studies have investigated the effects of managerial skill on accounting choices and tax decisions (García-Meca & García-Sánchez, 2018). This is a point of attention, as the financial result of corporations can be increased by tax planning (Atwood, Drake, & Myers, 2010; Tang, 2014).

Regarding tax planning, some studies have explored the relationship between managerial skill and tax avoidance and tax avoidance. For example, Francis, Sun and Wu (2013), Park *et al.* (2015) and Nurfauzi and Firmansyah (2018) indicate that companies with greater managerial skills reduce tax costs, however, the way in which they manage to reduce tax liabilities has not yet been exploited. Therefore, accounting-tax compliance (CCF) has been understood as a model that reduces the extent to which managers can report accounting profit differently from tax profit, based on laws that change according to the system of legal origin of the company's country of location (Tang, 2014). For example, in civil law-oriented countries such as Brazil, there is a higher level of compliance of profits.

On the other hand, accounting-fiscal non-compliance occurs due to the flexibility of managers in the judgment of accounting choices (Atwood et al., 2010), favoring the difference between accounting and fiscal profit. This flexibility creates different norms in the registration and calculation of tax profit and in the disclosure of accounting profit. This is because tax rules have a tax rating for the government, and corporate rules guide the accounting information useful to investors (Costa & Lopes, 2015). In *common law countries*, such as the United States, profits are presented for totally different purposes and, therefore, there is a greater propensity for the existence of accounting-tax non-compliance, which does not represent a bad situation for the company, government and also for shareholders.

The informative power of the financial statements according to the presentation of the results is also another factor that differs according to the guidance of the legal system. Hanlon, Laplante, and Shevlin (2005) explain that the loss of information to investors occurs when the tax and accounting profit is very close (high compliance), which may mean a 50% reduction in the explanatory power of profits. In civil law countries companies with high accounting-tax compliance are prone to tax demands (Atwood et al., 2010), resulting in a lack of quality of

accounting information (Hanlon et al., 2005). In this sense, greater managerial ability can offer better accounting information to *stakeholders*.

Faced with the legalistic scenario of each country, skilled managers can represent a link between the strategy of using accounting information for collection purposes and the expansion of its scope to *stakeholders* (Park et al., 2015; Nurfauzi & Firmansyah, 2018; Lee & Yoon, 2020). The context raises the following question: What is the influence of the managerial skill in the fiscal-accounting compliance of the companies of publicly-traded companies in global level? Thus, this study seeks to verify the influence of managerial skill on the accounting and tax compliance of publicly traded companies at a global level.

In terms of originality, managerial skills were approached in the prediction of organizational performance and results management practices, but it has not yet been explored in the context of accounting choices that have tax effects (Demerjian et al., 2012; Demerjian, Lewis-Wester & McVay, 2020; Huang & Sun, 2017). In addition, there are few researches that report the influence of managerial skill in the preparation of financial reports for collecting or informational purposes.

The research contributes in practice, under the agenda that shareholders, investors, market analysts and the government need to understand that the human capital of organizations can interfere in the way the organization deals with the accounting information. This can assist stakeholders in understanding how companies with more skilled managers and located in certain countries prioritize tax information rather than high-quality accounting information.

Theoretically, this study broadens the observations on the vision of the quality of accounting information and the effect of the characteristics of managers on the perspective of taxation. This debate covers the international scope for the possible effects that the institutional environment has on the behavior of managers and on the issue of tax and corporate standards.

## **2 MANAGERIAL SKILL AND THE ACCOUNTING-FISCAL COMPLIANCE:**

The most skilled managers have attributes that improve the conditions of companies in anticipation of business opportunities and in maximizing assets in generating shareholder benefits (Moura et al., 2019). The managerial skill has been attributed to the capacity that management has to transform corporate resources into a result. In this sense, the managerial skill is linked to the managers who generate the highest results with the lowest possible use of resources (Chen, Podolski & Veeraraghavan, 2015; Jiraporn, Leelalai & Tong, 2016; Demerjian, Lewis-Western & McVay, 2020).

Therefore, the characteristics of managers strongly influence competition strategies, financial decisions and organizational practices (Bertrand & Schoar, 2003). Thus, the managerial characteristics end up being vital factors for competitive business excellence (Herianti, Suryani & Marundha, 2021).

Previous studies related managerial capacity with accounting information quality attributes (Demerjian et al., 2020; Moura et al., 2019). Moura et al. (2019) analyzed the relationship between managerial skill and losses of the recoverable value of goodwill. The survey sample was composed of 148 companies, during the period from 2012 to 2016. The results showed that managers with greater managerial ability reduce the magnitude of goodwill losses. The managerial skill attribute of companies increased the practice of managing results for reporting more satisfactory profits.

Other previous studies have specified that managerial capacity serves as a driver for tax decisions involving tax evasion, such as Francis et al. (2013), Koester, Shevlin and Wangerin (2016) and Nurfauzi and Firmansyah (2018). In this way, the expertise of the most skilled managers favors the use of tax planning, benefiting the result of shareholders (Cen, Maydew, Zhang, & Zuo, 2017).

Francis et al. (2013), Park et al. (2015) and Nurfauzi and Firmansyah (2018) suggest that managerial skill influences the behavior of tax evasion in companies. Park et al. (2015) explains that when organizations perform below expectations, the most skilled managers minimize expenses arising from tax evasion. The high tax burden in Brazil can be a factor that intensifies this type of practice, considering that the financial difficulties of an organization can be minimized by the reduction of taxes, generating a survival, even if opportunistic attitudes are used.

Managers, by making choices that reduce tax liabilities, enhance the cash flow of shareholders (Desai & Dharmapala, 2009), which makes these managers an important asset for any organization. Nijhof and Jeurissen (2010) described that tax planning contributes to a gap between accounting and tax profits.

In addition, the difference between accounting and fiscal profit may arise from the differences between the calculation of tax profit and the measurement and recognition of accounting operations (Huang & Wang, 2013), which, since 2007, has been regulated in Brazil by the accounting pronouncements committees.

Atwood et al. (2010) complement that accounting-tax non-compliance has occurred from the difference of standardization between the measurement and recognition of accounting operations and the recognition of tax transactions. In this regard, managers with greater managerial skills use the flexibility to report the accounting results according to the essence of the form of operations (Herianti et al., 2021).

However, there is a counterpoint between skilled managers having more attention from investors for the high performance and interest of investors themselves with the maintenance of the corporate image by denying the labeling of tax evasion (Duan, Ding, Hou, & Zhang, 2018). The conflict between prioritizing corporate image and financial benefit from tax evasion, and even though corporate accounting standards are different from tax accounting standards, makes it clear that managerial skill can increase the difference between accounting and tax profits. Then, in search of evidence of this relationship, the following research hypothesis emerges:

**H1:** The managerial skill attribute influences the difference between accounting-tax profits in companies located in countries with *common law legal system*.

Studies on the relationship between management performance of companies and the use of accounting judgment in the measurement and recognition of operations were limited to companies in the United States, a country with *common law legal origin* (Kałdoński & Jewartowski, 2020). Therefore, exploring the impact of the managerial paradigm on the differences between accounting and fiscal profit in companies in countries with diverse legal origins becomes a fertile field for study.

Thus, the following research hypothesis arises:

**H1a:** The managerial skill attribute influences positively the difference between accounting-tax profits in companies located in countries with *common law legal system*.

For example, Muslim countries have religious orientation for the formation of laws (Glenn, 2007), different from what happens in *civil law* and *common law systems*. *Civil law countries* have a legalistic orientation that obliges companies to follow current legislation, even if there are other customs acceptable to society. As these countries tend to be rule-oriented, the government ends up exerting strong interference on accounting standards (Ball, Kothari & Robin, 2000).

This makes companies located in countries with civil law legal system have greater proximity between accounting and tax standards. In these countries, the companies rely heavily on financial institutions to raise funds, making accounting standards have an emphasis on protecting the creditor with more conservative measures, not having so much focus on accounting information to the investor and shareholder (Choi & Meek, 2011).

Thus, the following research hypothesis arises:

**H2a:** The managerial skill attribute influences positively the difference between accounting-tax profits in companies located in countries with *common law legal system and Muslims*.

To this end, the regulatory differences arising from the legal origin of a country may impair the quality of accounting information to shareholders and investors (Oz & Yelkenci, 2018). Therefore, from a wide cross -*country sample* of companies, it will be possible to verify the influence of managerial skills on accounting-tax compliance according to the legal origin of the country where the company is located.

### 3 METHODOLOGICAL PROCEDURES

The research was delineated as to the objectives, as descriptive, as to the procedures, by the documentary analysis and, as to the approach of the problem, of a quantitative nature. The research population comprises the open companies of 28 countries. The selection of the sample countries was determined by the three most prevalent legal systems in the world, which according to Juriglobe (2020) are: *Common law, Civil law* and Muslim.

In *common law countries*, for example, there is a greater separation of accounting-tax profits, while in countries that adopt *the civil law legal system*, companies tend to higher accounting-tax compliance due to strong government interference in accounting standards (Choi & Meek, 2011). In Muslim countries, because they do not follow international accounting standards and have religion-based legislation, it is possible to verify a low level of accounting-tax compliance (Eigenstuhler, Dal Magro & Mazzioni, 2020).

Therefore, the sample took into account the 60 largest global economies by Gross Domestic Product and a selection of 10 largest countries with the highest economy for each legal system, according to Table 1.

Table 1  
**Sample of research by legal system**

Country	Sample of Companies	Legal System	Adoption of IFRS
Brazil	131	Civil Law	2010
Germany	232	Civil Law	2005
France	235	Civil Law	2005
Russia	155	Civil Law	2012
China	2,300	Civil Law	Did not adopt
Japan	2,453	Civil Law	2010
Italy	84	Civil law	2005
Spain	55	Civil law	2005
Mexico	29	Civil law	2012
South Korea	605	Civil Law	2009
Saudi Arabia	57	Muslim	2012
Egypt	70	Muslim	Did not adopt
Israel	69	Muslim	2008
United Arab Emirates	50	Muslim	2012
India	688	Muslim	Did not adopt
Indonesia	111	Muslim	Did not adopt
Pakistan	332	Muslim	Did not adopt
Nigeria	136	Muslim	2011
Malaysia	838	Muslim	2012
Singapore	456	Muslim	2012
Australia	259	Common Law	2005
Canada	255	Common Law	2011
United States	798	Common Law	Did not adopt
United Kingdom	564	Common Law	2007

Ireland	19	Common Law	2005
New Zealand	55	Common Law	2007
Hong Kong	348	Common Law	2005
Philippines	122	Common Law	2007

Source: Research data.

The survey sample is classified as non-probabilistic, using all publicly traded companies from the selected countries that had the necessary information to operationalize the selected variables. In addition, companies in the financial sector were excluded from the sample, due to the tax and financial peculiarity they represent. Companies that did not have information necessary for the calculation of the variables of managerial skill and accounting-tax compliance were also excluded. After the exclusions, the sample consisted of 11,506 companies in the period from 2012 to 2019.

The analysis results from the unbalanced data sample, because some companies did not have information in specific years. Thus, the research comprises a sample period of 8 years (2012 to 2019), which generate 80,517 observations. The delimitation of the period of analysis is due to the fact that in 2012 all companies in the countries that decided to adhere to IFRS standards had already adhered to.

To measure whether there are differences or not in the reporting of profits, this work takes into account the accounting-tax compliance model proposed by Atwood et al. (2010), who invested in companies located in different countries. Therefore, from the proposed econometric model, the following regression equation is related:

$$CTE_{it} = \beta_0 + \beta_1 PTBI_{it} + \beta_2 DIV_{it} + \epsilon_{it}$$

Where:

CTE<sub>it</sub> = current tax expenses of company i in year t;

PTBI<sub>it</sub> = Profit before Company Taxes i in Year t;

DIV<sub>it</sub> = Profit before Company Taxes i in Year t;

ε<sub>it</sub> = error.

The regression residue (error) represents the level of accounting-tax compliance. The higher the error of regression (waste greater than zero), the greater the disconformity between accounting and fiscal profits, and the lower the error (waste equal to or less than zero), the greater the compliance between accounting and fiscal profits. It is necessary to consider that the companies that present non-compliance are with accounting profit different from the tax profit, that is, prioritize a type of accounting information aligned with the interest of shareholders and other type of tax information that serves the government.

The measurement of accounting-fiscal compliance was by regression by group of companies according to the year and country of location. According to the 28 countries of the sample and the 8 years of the observed period (2012 to 2019), 224 linear regressions were necessary to estimate the CCF variable of this study. The SPSS software was used to operationalize the models.

As for the model used to measure the managerial skill, Demerjian et al. (2012) presuppose that managers with greater managerial skills can generate higher revenues with resource, being able to maximize the efficiency of available resources. Demerjian et al. (2012) consider that the company's financial proxies are able to explain the efficiency of the business and, from the efficiency indicator, regressed according to the financial variables and characteristics of the organization, it becomes possible, through the quadratic error of linear regression, estimate the indicator of managerial skill.

Thus, to measure the managerial skill the model is guided in two stages:

The first step measures the efficiency of the company by MaxDEA - Data envelopment analysis. This calculation relates *inputs* (resources available - cost of goods sold; expenses with sales, general and administrative; fixed assets; operational lease; research and development expenses; *goodwill*; and intangible asset) with *output* (net sales).

The second step uses the efficiency of the company as a dependent variable, in which through linear regression we obtain the residue of this regression that is used as a *proxy* of managerial skill. The efficiency calculated by the DEA is understood as an isolated characteristic of the company originated according to the performance of the manager, and to reach a quantitative indicator in the measurement of managerial skill, it is necessary to regress this efficiency factor DEA (dependent variable) against factors that may represent an aid or an impediment in resource management (independent variables), thus reaching the indicator of managerial skill, which is the error generated by this regression (Demerjian et al., 2012).

The econometric model for measuring managerial skill is presented below:

$$EFC_{it} = \beta_0 + \beta_1 TAM_{it} + \beta_2 HHI_{it} + \beta_3 CAX_{it} + \beta_4 IDD_{it} + \beta_5 SUB_{it} + \beta_6 EXP_{it} + \varepsilon_{it}$$

Where:

$EFC_{it}$  = efficiency of company i in year t;

$TAM_{it}$  = size of company i in year t;

$HHI_{it}$  = index of *Herfindahl-Hirschman* of company i in year t;

$CAX_{it}$  = cashier and equivalent of company's cashier i in t;

$IDD_{it}$  = age of company i in year t;

$SUB_{it}$  = number of subsidiaries of company i in year t;

$END_{it}$  = revenue of exportation of company i in year t;

$\varepsilon_{it}$  = error.

For the calculations, the companies were grouped according to the sector and year. The grouping is due to the fact that the managerial skill model proposed by Demerjian et al. (2012) measures the efficiency with which managers transform companies' resources into sales, compared to their peers in the same sector. This is because, according to the authors, companies in the same sector have great operational and financial similarities.

The division by sectors takes into account eight groups according to the Thomson Reuters database classification, namely: basic materials; industry; consumer goods; health; consumer services; utilities; technology; and others (telecommunication, education, art, culture, sport, lodging, food). The period examined covers the years 2012 to 2019.

Data envelopment analysis (DEA) was calculated using MAXDEA software according to the sector and year of the companies listed in the sample. The regressions were calculated using SPSS software, where the model was generated from the group of companies in each sector and per year, totaling at the end 64 regressions for the estimation of managerial skill.

After the calculation of accounting-fiscal compliance variables and managerial skills that are the basis of the study, the model for the analysis of the influence of managerial skill on accounting-tax compliance was constructed with the addition of other independent variables pointed out by the literature as other determinants of the level of accounting-tax compliance of companies. Thus, the model proposed to meet the objective of this study is described below according to the research construct in Table 2.

Table 2

**Construct of the research**

<b>Dependent Variable</b>			
<b>Variable</b>	<b>Metrics</b>	<b>Basic authors</b>	<b>Source</b>
Accounting-tax compliance	$CTE_{it} = \beta_0 + \beta_1 PTBI_{it} + \beta_2 DIV_{it} + \epsilon_{it}$	Atwood et al. (2010)	Thomson Reuters One Banker
<b>Independent Variables</b>			
Management Skill	1 <sup>st</sup> step: Data envelopment analysis (DEA) to calculate the efficiency of the company; 2 <sup>a</sup> step: Multiple linear regression to estimate the managerial ability, the variable being dependent on the result of the efficiency indicator obtained in the DEA. $EFC_{it} = \beta_0 + \beta_1 TAM_{it} + \beta_2 HHI_{it} + \beta_3 CAX_{it} + \beta_4 IDD_{it} + \beta_5 SUB_{it} + \beta_6 EXP_{it} + \epsilon_{it}$	Demerjian, Lev & Mcvay (2012); Sun (2016).	Thomson Reuters One Banker
ROA	Net Profit / Total Asset	Furtado, Souza & Sarlo Neto (2016); Sun (2016).	Thomson Reuters One Banker
Size	Natural logarithm of the Total Asset	Kabir & Rahman (2016); Sun (2016).	Thomson Reuters One Banker
Liquidity	$(\text{Current assets} + \text{Non-current assets}) / (\text{Current Liabilities} + \text{long term payables})$	Long et al. (2013); Sodan (2012)	Thomson Reuters One Banker
Valuation of Shares	Share value t / Share value t-1	Comprix et al. (2011) Demerjian et al. (2012).	Thomson Reuters One Banker
Cash Flow per Share	Free cash flow / ordinary shares in circulation	Sodan (2012).	Thomson Reuters One Banker
Intangible	Value of the intangible	Hamamura (2018); Silva (2016).	Thomson Reuters One Banker
Market value of the company	Market Value / Equity	Kabir & Rahman (2016).	Thomson Reuters One Banker
Governance	Average Governance Indicators = (Voice and Responsibility + Political Stability + Governmental Effectiveness + Regulatory Quality + Corruption Control + Enforcement) / 6	Laux & Stocken (2014).	World Bank (2019)

Source: Elaborated by the authors.

According to the research construct, the following regression equation is used:

$$CCF_{it} = \beta_0 i_t + \beta_1 ROA_{it} + \beta_2 LIQ_{it} + \beta_3 TAM_{it} + \beta_4 VLA_{it} + \beta_5 FCX_{it} + \beta_6 INT_{it} + \beta_7 VEP_{it} + \beta_8 GOV_{it} + \beta_9 HGE_{it} + \epsilon_{it}$$

Where:

CCF<sub>it</sub> = accounting-fiscal compliance of the company i in the year t;

ROA<sub>it</sub> = return on equity of the company i in the year t;

LIQ<sub>it</sub> = liquidity of the company i in the year t;

TAM<sub>it</sub> = size of company i in year t;

VLA<sub>it</sub> = appreciation of the shares of the company i in year t;

FCX<sub>it</sub> = cash flow per share of company i in year t;

INT<sub>it</sub> = intangible of company i in the year t;

VEP<sub>it</sub> = value of market of company i in year t;

GOV<sub>it</sub> = governance indicator of the country where the company i is located in the year t;

HGE<sub>it</sub> = managerial ability of the company i in the year t;

#### 4 ANALYSIS AND DISCUSSION OF RESULTS

Table 3 shows the descriptive statistics of companies grouped in countries with a compatible legal system. This becomes relevant to the point that the accounting practices of each country differ due to the legal system adopted (Ball et al., 2000; Nobes, 2006).

**Table 3**  
**Mean and median of variables by legal system**

Variables	Civil law		Common Law		Muslim	
	average	median	average	median	average	median
CCT	0.0071	-0.0041	96.1309	-0.0041	-0.0061	-0.0041
Cash flow	1523.5036	248.6600	2384.3667	345.9900	365.4294	50.2800
ROA	5.3982	2.4583	6.1960	2.2790	4.7956	2.0006
Liquidity	268.3794	55.9250	514.6762	25.5061	54.0657	2.9639
Size	3872.5668	480.1800	8649.6313	1091.8000	1033.5938	105.3200
Valuation	-0.8445	0.0000	-0.2025	0.0000	0.0392	0.0000
Intangible	411.1430	11.2200	1842.1920	52.6600	94.5743	0.0000
Mkt-to-book	2254.3038	392.4200	8478.5749	503.8000	813.7427	1.9950
Governance	0.5749	0.9412	1.2796	1.3352	0.1041	-0.1102
Managerial Ability	-2.2701	-3.42712E+2	-4.35587E+1	-3.98E+12	1.06661E+12	-3.9822E+12

Source: Research data.

In common law, companies are, on average, larger, more valuable and have greater intangibles. Another important point to highlight is the valuation of actions, while in *civil law and common law countries* the average points to a devaluation, in Muslim countries the average indicates positive percentages. In addition, companies located in Muslim countries have the highest average managerial skill, which allows us to add the possible relationship between managerial skill and the valuation of the actions of companies in these countries.

On average, companies in *common law countries* have stronger corporate governance than companies in other countries, as they have the best average (1.2796), followed by *civil law* (0.5749) and Muslims (0.1041) countries. Finally, the results suggest that the higher accounting-tax non-conformity occurs in companies in *common law countries* and, on the other hand, the most prevalent accounting-tax compliance occurs in companies in Muslim countries.

Table 4 shows the influence of managerial skill in accounting-tax compliance with models segregating companies by legal system adopted by the country of locality.

**Table 4**  
**Influence of managerial skill on accounting-tax compliance**

Dependent variable: Accounting-tax compliance  
(negative sign indicates compliance; positive sign indicates accounting-tax non-compliance)

Independent Variables	Civil Law		Common Law		Muslim	
	Beta	Sig.	Beta	Sig.	Beta	Sig.
HG	<b>-0.024</b>	<b>0.000*</b>	<b>0.017</b>	<b>0.038*</b>	0.006	0.453
Governance	<b>0.015</b>	<b>0.067**</b>	0.004	0.696	-0.013	0.110
IFRS	<b>0.035</b>	<b>0,000*</b>	0.016	0.129	0.011	0.200
ROA	<b>-0.010</b>	<b>0,030*</b>	-0.002	0.827	-0.014	0.053
Liquidity	-0.007	0,167	-0.002	0.816	0.000	0.990
Cash Flow	<b>0.045</b>	<b>0,000*</b>	-0.004	0.694	0.012	0.297
Size	<b>-0.013</b>	<b>0,039*</b>	0.018	0.120	<b>-0.045</b>	<b>0.002*</b>
Valuation	<b>-0.013</b>	<b>0,004*</b>	-0.005	0.502	-0.005	0.493
Markettobook	<b>-0.010</b>	<b>0.051**</b>	<b>-0.047</b>	<b>0.000*</b>	<b>0.051</b>	<b>0.000*</b>
Intangible	<b>0.025</b>	<b>0,000*</b>	0.016	0.059	-0.010	0.217
(Constant)	<b>0.001</b>	<b>0,001*</b>	<b>0.001</b>	<b>0.041*</b>	0.001	0.182
VIF	1.693		1.394		1.632	

R	0.075	0.050	0.044
R <sup>2</sup>	0.006	0.002	0.002
Sig F	0.000	0.000	0.000
DW	2.002	1.984	2.003
N.	46052	15809	18656

\* Significance at a level of 5%; \* Significance at a level of 10%

Source: Research data.

It should be noted that in companies located in *civil law* the managerial ability negatively influences the accounting-tax non-compliance. In this sense, companies with greater managerial skills present accounting profits closer to fiscal profits. Therefore, the hypothesis (H2a) that the managerial attribute influences positively the difference between accounting-tax profits in companies located in countries with *civil legal law is accepted*.

Given the facts, it is notorious that the institutional environment affects the managerial and corporate accounting attitudes. Atwood et al. (2010) had already confirmed that companies domiciled in countries requiring a high degree of compliance between financial and tax reports (*civil law*) have State legal restrictions that force companies to report corporate profits closer to government interest tax profits.

In *common law countries* there is greater legal protection for the investor, so that the information is aimed at the market and not at the State. Convergent to what establishes the legal orientation of these countries, in which a positive relationship was found between managerial skills and accounting-tax compliance. This result indicates that in companies located in countries with a *common law legal system*, the managerial ability makes the reported corporate profits different from the tax profits used as a basis of calculation for the taxes.

The results show that in companies located in countries with *common law legal system*, the managerial skill attribute acts as an instrument of protection to shareholders, to the point that provides higher quality information, by removing from the accounting focus the concern in the calculation of taxes, which is done in parallel. The result accepts the hypothesis (H1a) that the managerial attribute influences positively the difference between accounting-tax profits in companies located in countries with *civil legal law is accepted*.

It is also necessary to discuss the lack of statistical significance of HG in the CCF in companies located in countries with a Muslim legal system. As seen, in this group of countries, HG does not relate to the CCF of companies. This fact can be explained by the rules governing these systems themselves, that is, regardless of the skill of the manager, the guidance will be the same. Thus, other factors may be influencing the levels of CCF.

The Muslim legal system is governed by religion and tends to minimize the importance of individual property rights, insofar as absolute property is viewed as ultimately attributed to God (Glenn, 2007). Thus, the corporate governance of these countries obliges companies to be in accordance with what the religious precepts govern.

In the view of shareholders, the results suggest that companies with more skilled managers would be more attractive to investors, since it is visible the concern that exists, on the part of these managers, in ensuring a high informative power of profits, being of paramount importance the hiring of professionals of this step.

Moreover, the evidence indicates that there is a significant positive relationship between the governance of *civil law countries* and the major differences in accounting and tax profits of companies. In this sense, the association between good governance and investor protection results in a greater breach of profits. On the other hand, there is the argument that high governance restricts the management of results, which would reduce the difference in accounting and tax profits.

Thus, as advocated by Anokhin and Schulze (2009), a high level of governance in the country leads to strong protection of investor rights, which forces companies to disclose more

information and become more transparent. Thus, Anokhin and Schulze (2009) associated a country's low levels of governance with an increase in the risks of the entrepreneur.

On the other hand, stronger country-level governance acts as a substitute for corporate-level governance, which can prevent tax management by establishing stronger monitoring for company managers (Desai et al., 2007; González & García-Meca, 2014). Thus, the lack of confidence in the justice of a tax system causes an increase in tax evasion by companies (Newman et al., 2018).

It is possible to observe that the authors make their mentions to scenarios that seem to be distinct. Consistently, there is a link between the country's governance and the legal system itself. In *common law countries* there is greater shareholder protection, so that accounting and financial information is evidenced in a transparent, fair and totally focused on the needs of investors (Ball et al., 2000; Nobes, 2006), differently from what happens in *civil law countries* that have a legalistic orientation, with evidence only of what the law determines, with alignment between financial and fiscal accounting and information destined mainly to meet the tax authorities (Ball et al., 2000; Nobes, 2006).

The discussion on governance should focus on the purpose of information, so that the relationship evidenced by the result of the regression that indicates a positive relationship between the non-compliance and the governance of *civil law countries* indicates that, in fact, the low indicators of these countries end up collaborating for tax avoidance as pointed out by the study by Newman et al. (2018). As for *the common law and Muslim countries* it was not possible to find a significant relationship between governance and the level of CCF, however, the positive coefficient for *common law* and negative for Muslims converges exactly with the theory discussed by the study of Anokhin and Schulze (2009).

The difference between accounting profit and tax profit has also been attributed to the implementation of *the International Financial Reporting Standards (IFRS)* and many countries that previously adopted accounting practices based on tax legislation (*civil law*) began to adopt the principles of corporate accounting with information aimed at *stakeholders* (Tang, 2014), which can be understood as a disconnect between the corporate and fiscal structure in accounting (Martinez & Leal, 2019).

The reason for such mismatch stems from the fact that the IFRS standard was developed through an environment in which a *common law-oriented and developed corporate governance model prevails* (Hung & Subramanyam, 2007), while in countries of *civil law tradition*, the model is oriented to creditors (Lopes & Walker, 2008).

Given the perspective of the adoption of IFRS that make it flexible the possibility of reporting profits in a different way, the positive relationship between the non-compliance and the governance of the country can be understood by IFRS to have a pattern of accounting disclosure that is governed by the regulation of each nation.

Starting for the discussion of the other variables of the study, at a significance level of 5%, it is possible to infer a consistent relationship between the CCF and the ROA, but negative. This relationship indicates that the ROA reduces the differences in the reporting of profits. The explanation is that more profitable companies pay more taxes (Furtado, Souza & Sarlo Neto, 2016).

Also at the level of 5% significance, the model did not present statistical significance regarding the relationship between the company's liquidity and the CCF. Long et al. (2013) found a negative relationship between the difference in profits and liquidity, that is, the lower the reported differences, the higher the liquidity, corroborating the research. On the contrary, Sodan's study (2012) found an inverse relationship. For Sodan (2012), the companies with liquidity problems are more likely to manage results, and therefore would have a link with greater differences between reporting accounting and fiscal profit.

Sodan (2012) highlights cash flow as a component of the company's net profit. Thus, large revenues or amounts of cash flow mean that the company would pay higher amounts of taxes and thus managers would be willing to reduce this taxable base (Sodan, 2012). However, the regression results showed statistical significance that confronts Sodan's findings (2012) regarding the relationship between the cash flow per company's action and the CCF. According to the results, the relationship between cash flow and CCF is positive, indicating that the higher the cash flow, the greater the distance between profits.

Regarding the size and market value of the company, the regression results show a negative sign between the CCF and the value of the company, with high statistical significance, which means that the value of the company is associated with the shortest distance between the reported profits. Long et al. (2013), Koubaa and Anis (2015) also investigated the relationship between the differences in accounting and tax profits and found a negative relationship with the company's market value.

Likewise, Comprix et al. (2011) show that the great differences between accounting and tax profits are associated with uncertainty of market participants regarding the turnover of shares, analyst forecast, dispersion and variation of the return of shares. According to the regression results only in companies of *civil law origin*, it is possible to verify a statistically significant relationship regarding the association of CCF and the valuation of shares.

The explanation for the fact that the negative relationships between valuation of shares and the market value of the company with higher levels of accounting-tax non-compliance, for Paulo, Martins and Corrar (2007), is due to the fact that the manipulation of accounting information brings damages to the various users of accounting information, as the reduction of certainty regarding the allocation of resources and investment opportunities, increase in risks and decrease in stock prices that affects the value of the company.

The inclusion of the variable of intangible assets was motivated by the growth in the number of transactions involving these items in recent years, which may be influenced by the deductibility of amortization in income tax (Hamamura, 2018; Silva, 2016).

According to the regression results, greater intangibles are positively related to greater differences between accounting and tax profits. Other studies such as those of Hasan *et al.* (2017) and Lima *et al.* (2021) had also found the same evidence. Thus, according to Tang and Firth (2011), intangible assets, as well as tangible ones, also generate amortizations. Thus, the positive relationship between non-compliance and these assets, according to Hasan *et al.* (2017) and Lima *et al.* (2021) is explained by the different recognitions in accounting and tax rules and also due to the difficulties to verify their values and the tax benefits generated by the amortizations (Silva, 2016).

## 5 FINAL CONSIDERATIONS

The objective of this study was to verify the influence of managerial skills on accounting-tax compliance of publicly traded companies at the global level, and it was based on a *cross-country sample*, which was based on the results of a cross-country sample. to deepen the accounting effects arising from the legal orientation of all *civil law*, *common law* and Muslims countries.

The results indicate that countries with *civil law legal system* are less concerned with the quality of accounting information reported to external users and seek to meet with greater emphasis on tax requirements (Lee, Biglaiser & Staats, 2014). Thus, it is understood that in these countries, managers must have characteristics that improve the results of companies to compensate for the lower quality of the accounting information offered to minority shareholders and motivate the continuity of large volume of investors. From this perspective, the results of this research indicate

that the most skilled managers are conditioned to observe *the compliance* of the country where they operate.

Given the results presented, it is clear that the legal orientation of the country is one of the key points to take into account when observing the behavior of the most skilled managers and the level of accounting-tax compliance of the presentation of the accounting reports. Thus, for skilled managers, being in accordance with the law and presenting accounting reports according to what determines the jurisdiction is essential, preserves the image and is an indicative of business longevity.

This study is relevant to tax authorities, investors and international shareholders, as it demonstrates that managerial skills can be considered a relevant factor for reporting accounting and financial information, as well as for accounting and financial reporting. so it is safe to say that more skilled managers seek to report more quality information to the target user of the jurisdiction of the country where the company is located.

Finally, the data allowed to expand the empirical findings on managerial skill and its relationship with the differences in the reporting of profits. Both nationally and internationally, this study has significant relevance, since studies that contemplate such data and findings, until the moment of this study, were scarce.

For the literature, this study extends the research on managerial skill by Demerjian et al. (2012), noting that the managerial capacity makes the profits disclosed are with higher quality to the target stakeholders of the local business country. Secondly, this study investigates the association between managerial skill and accounting-tax compliance at the international level, which contributes to demands for analysis of the influence of institutional systems at the country level on the variety of phenomena at the group level of interest.

The selection of the sample also allowed to work with a wide representation of different levels of investor protection and tax regulation systems, and broadens the analysis to a base outside the Anglo-Saxon scope (*common law*), that is where most studies in the area of accounting-tax compliance were done earlier.

The limitations may come from the model that estimates the managerial ability without taking into account the characteristics of each manager, such as the level of education and time of experience in the function, for example. Another limitation is due to the non-control of the misalignment of the accounting and fiscal standards of each country, since several countries with different rules and particularities are used. Even countries that have the same legal origin, yet accounting standards are intrinsic to each nation.

It is also important to highlight that the results found should not be generalized to the entire global market, since even if it is a large sample, with companies from several countries, not all listed companies were used, so, the findings comprise only the studied companies and the observed time space.

It is suggested as a potential expansion of the research to explore the individual characteristics of managers and to make a comparative analysis between one country and another. In addition, associating the moderating effect of national culture becomes a promising research. Finally, associating the quality of accounting information with accounting-tax compliance can be useful to demonstrate whether actually having non-compliance is better for information to *stakeholders*.

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