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International Financial Reporting Standards (IFRS), Corporate Social Responsibility, and Sustainable Development

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ABSTRACT

This paper describes a brief evolution of IFRS and its benefits. It then explains the organized hypocrisy of firms that, on the one hand, eulogized the importance of IFRS and quality financial reporting while, on the other hand, using corporate social responsibility (CSR) and sustainable development as a form of earnings management to depress profits, so that a firm's share of fair tax is not paid to the State; as such there is some form of organized hypocrisy. This article also explains what can be done to address tax avoidance. Since the precursor of tax avoidance is earnings management, a simple cosmetic earnings management is analyzed using Benford's Law for a public-listed Cambodian firm. This paper aims to illuminate that once cosmetic earnings management occurs, a grander scale of earnings management may occur for tax avoidance purposes, which, while legal, is unethical. This study sheds some light on the discourse of tax avoidance, which may become rampant among Cambodian firms in the future.

Keywords: IFRS; CSR; Sustainable development; Earnings management; Tax avoidance; Organisational culture; Benford's Law

INTRODUCTION

Tax avoidance has proliferated with offshore tax sheltering (through tax havens), accounting manipulation, and legal obfuscation (Dowling, 2014). Tax avoidance is the pursuit of transactions and structures to reduce tax responsibility that goes against the letter and spirit of taxation laws (Prebble & Prebble, 2010, cited in Bird & Davis-Nozemack, 2016). In addition, many firms use their corporate social responsibilities (CSR) and sustainable development to avoid paying their fair share of tax. At the same time, many countries have started to adopt International Financial Reporting Standards (IFRS) to improve financial reporting quality. Hence, there is an impasse and conflict as organizations carry out their tax avoidance via their CSR and sustainable development activities while simultaneously adopting IFRS.

As such, this paper aims to analyze these issues and provide some ways to resolve this entanglement. The paper is divided as follows: The next section will undertake a literature review on IFRS, its evolution, and its benefits. The literature review will also examine social responsibility and sustainable development as a means of earning management for tax avoidance, thus paying a fair share of tax to the State – the dark side of stakeholder management. Subsequently, a section on the conflicts arising from this organized hypocrisy (Sikka, 2010) on adopting IFRS but undertaking social responsibility to avoid paying higher taxes and means to resolve this impasse will be devoted. Since earnings management is a prerequisite for tax avoidance, cosmetic earnings management is carried out on a public-listed Cambodian firm using Benford's Law. Finally, a section will be on the conclusions of the study.

LITERATURE REVIEW

This section will first discuss the evolution of IFRS. Subsequently, the benefits of IFRS will be expounded. A tax avoidance literature will follow this via CSR and sustainability developments.

International Financial Reporting Standards (IFRS)

The International Accounting Standards Committee (IASC) was conceived in 1973 and operated for 27 years till 2000 (Zeff, 2012; Tweedie & Seidenstein, 2005). It was then taken over by the International Accounting Standards Board (IASB) in 2001 and its subsequent release of IFRS (Zeff, 2012; Tweedie & Seidenstein, 2005). The previous Asian financial crisis, as well as the recent financial scandals in the United States, coupled with previous corporate governance failures, have made investors, countries, and companies realize the importance of good

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financial reporting (Tweedie & Seidenstein, 2005; Camfferman & Wielhouwer, 2019). Therefore, many countries have adopted IFRS to improve the quality of financial reporting. Currently, 166 countries have adopted IFRS (IFRS.org, 2021). In addition, IFRS has been adopted due to coercive-, mimetic- and normative isomorphism. Coercive isomorphism arises from resource needs and legitimacy concerns. For example, the International Monetary Fund (IMF) regularly provides aid to needy countries. In return, the IMF will demand that reforms be implemented, such as implementing IFRS in their home country (Judge et al., 2010). Mimetic isomorphism refers to the tendency of social actors to imitate other social actors, such as individuals, organizations, and nations, which are viewed as successful and legitimate. Touron (2005, cited in Judge et al.,2010) found that large French firms seeking legitimacy in the global marketplace moved away from domestic accounting standards due to mimetic pressures. Finally, normative isomorphism refers to collective values that bring about conformity of thought and deed within an institutional environment. A country's educational achievement may predict normative pressures brought about through professionalization. Thus, better-educated societies would be more likely to be exposed to and be influenced by the professional standards of the accounting profession (Judge et al., 2010), hence adopting IFRS.

There are some differences between IFRS and the US GAAP (Generally Accepted Accounting Principles). GAAP is a rules-based system with particular accounting guidelines to cover the range of business transactions. It has been tested and subjected to extensive scrutiny and interpretation in the US legal system (Sherman et al., 2009). However, failures like Enron and WorldCom, among others, show that it is not infallible (Tweedie & Seidenstein, 2005). In IFRS, management and auditors are given leeway to consider what constitutes a fair representation of revenues and expenses with a broad set of guidelines (Sherman et al., 2009). As such, IFRS is a principles-based system (Accountingtools, 2021).

There are many benefits of IFRS. The use of one set of high-quality financial reporting has the potential to improve comparability and transparency. When IFRS is used appropriately, many stakeholders, among them shareholders, will have high-quality information and can make better decisions. This will result in better fund allocation by markets and organizations, achieving a lower cost of capital. In this way, consistent use of IFRS will facilitate the development of national capital markets and the integration of financial markets (Tarca, 2012).

Integration of financial markets may take many forms, such as listing by firms from one country in the stock exchanges of other countries, foreign direct investments (FDIs), cross-border mergers and acquisitions, and free capital flows across countries (Yoshikawa & Rasheed, 2009). These can all result in common financial reporting standards being used, chiefly IFRS. One of the reasons for foreign listing, either through cross-listing or initial public offerings (IPOs), is to engage in bonding.

One example of a foreign IPO is Alibaba, listed in the US (Reuters, 2018). Cross-listing is the process by which a firm incorporated in one country elects to list its equity on the public stock exchange of another country (Ferris et al., 2009). These will signal to investors that firms are willing to comply with higher standards than required in their home country (Vaaler & Schrage, 2006, cited in Yoshikawa & Rasheed, 2009). Bonding increases a firm's share value (Coffee, 2002, cited in Yoshikawa & Rasheed, 2009) and improves corporate governance (Ferris et al., 2009). Other reasons for cross-listing include a desire to obtain investment capital at a lower rate, achieve higher share valuation (through legal and reputational bonding), enjoy increased liquidity and market depth for its shares, and obtain a more significant market share for its products and services (Karolyi, 2006 cited in Ferris et al., 2009). Hence, if many firms undertake cross-listing and subsequent bonding as well as undertaking foreign IPOs, in the long run, the corporate governance of such firms and, ultimately, countries will converge. Harmonizing accounting principles through IFRS can facilitate and bring about such convergence.

IFRS adoption has also benefited security analysts; Horton et al. (2012, cited in Tarca, 2012) state that security analysts had experienced more accuracy in their forecasts following IFRS adoption due to improved information quality and comparability. IFRS can also help to reduce earnings management (EM) (Leventis et al., 2011, cited in Tarca, 2012). There needs to be proper infrastructure in place to support IFRS. This takes place in the form of laws. A common law country with vigorous enforcement will have better investor protection than civil law countries (La Porta et al., 1997, cited in Davies, 2008), thereby ensuring IFRS benefits can materialize.

Social Responsibility and Earnings Management Process to Avoid Taxes

This section analyses the use of corporate social responsibility (CSR) and sustainable development to undertake earnings management to declare lower profits and, consequently, lower taxes. As such, CSR and sustainable development carry out tax avoidance.

Corporate social responsibility has been defined as the duty of organizations to conduct their business in a manner that respects the rights of individuals and promotes the most outstanding human welfare (Manakkalathil & Rudolf, 1995). On the other hand, Steiner and Steiner (2004) defined it as the duty a corporation has to create wealth by using means that avoid harm to societal assets, protect them, and even enhance societal assets.

According to the World Commission on Environment and Development (1987, cited in Strachan, 1997), also known as the Brundtland Commission Report (Watson & Emery, 2004, p. 917), sustainable development is defined as "a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs."

This report postulates that environmental costs could no longer be treated as an externality; organizations would need to internalize it (Watson & Emery, 2004). Sustainable development entails an organization ensuring that its usage of resources is sufficient, not only for the present generation but also for the future generation. In addition, an organization should ensure that its repletion of environmental resources is greater than or equal to its depletion of environmental resources, thus leaving a small environmental footprint (Professional Accountant, 2007).

There are many ways that an organization demonstrates that it is practicing its social responsibility and undertaking sustainable development. Among them are complying with codes or principles, such as the UN Global Compact Principles (Scherer & Palazzo, 2011) and OECD guidelines for MNEs (Steiner & Steiner, 2004), altering human resource management practices to align performance appraisal and reward to CSR (Steiner & Steiner, 2004), social auditing – hiring independent auditors to assess the impacts of a corporation on society (Zadek, 2004; Pirsch et al., 2007), triple-bottom-line reporting (Elkington, 1998, cited in McCann & Sweet, 2014), environmental certification (Rezaee & Elam, 2000), integrated reporting (Hughen et al., 2014), circular economy (Esposito et al., 2018), among others. As a result, many benefits occur from practicing CSR and sustainable development, such as lower cost of equity, lower cost of debt, higher analyst following, more favorable analyst recommendations, and higher firm value (Cui et al., 2015).

Hence, a firm undertaking CSR and sustainable development demonstrates its relationship management with diverse stakeholders. According to Carrol (1979, cited in Carroll, 1999), CSR encompasses an organization's economic, legal, ethical, and discretionary responsibilities. Therefore, paying an organization's fair share of tax is part of its legal and ethical responsibilities in demonstrating its CSR. Nevertheless, this stakeholder management has a dark side (Cennamo et al., 2009). This can occur when organizations pursue legal tax avoidance or creative tax accounting (Dowling, 2014). Many corporations produce reports on their commitments to being socially responsible but carry out large-scale tax avoidance (Sikka, 2010).

There is general agreement that organizations should pay their fair share of tax and adhere to both the letter and spirit of taxation laws and their payments must be timely (Paine et al., 2005, cited in Dowling, 2014). This fair share of tax is the government's statutory tax rate, a reference point to evaluate actual tax payments. This fair share of tax is also in line with Smith's (1776, cited in Dowling, 2014) proportionality; people should pay tax in proportion to their ability, and tax payments should not be arbitrary. The tax rate imposed by the government should not affect an organization's survivability and the ability to compete.

Tax avoidance is a form of earnings management (EM), broadly defined as deliberate actions by managers to bring about desired financial outcomes (Jordon & Clark, 2011). EM can be classified into two types – those involving changes in accounting methods and those relating to operating decisions (Fischer & Rosenzweig, 1995, cited in Jordon & Clark, 2011). Legal tax avoidance is an example of changes in both accounting methods or creative tax accounting and operating decisions, especially when decisions on CSR are made.

Firms undertake tax avoidance for myriad reasons. For multinational corporations (MNCs), the complexity of the current tax regime within and between countries allows MNCs to reallocate their activities to realize profits from countries with the most favorable tax jurisdictions. MNCs believe that different tax rates are healthy competition among countries to attract them, hence tax havens. In addition, it is hard for stakeholders to determine whether companies are paying their fair share of tax due to the complexity of modern accounting practices and private negotiations with tax authorities (Dowling, 2014).

Moreover, some firms specialize in advising their clients on how to evade tax. Furthermore, paying taxes reduces a company's profits and, therefore, its ability to practice its CSR, such as improving employment opportunities. Also, paying tax connotes a negative emotion compared to paying to practice its CSR. Tax avoidance also signals governments to refrain from acting recklessly in raising statutory tax rates (Dowling, 2014). Companies also may try to add more shareholder value via tax avoidance at the expense of the State (Sikka, 2010), although ironically, the State is also a firm stakeholder. Tax avoidance has also been used to increase director remuneration, as avoiding tax results in greater profits, which will also mean better corporate performance and, consequently, enriching directors (Bender, 2004, cited in Sikka, 2010). On the flip side, this may also increase agency conflict as shareholders may be concerned that directors might become too aggressive in tax avoidance, which might result in illegal tax activities (Sikka, 2010).

A company may avoid tax through offshore tax sheltering, accounting manipulation, and legal obfuscation. Offshore tax sheltering uses artificial transactions to shift revenues to low-tax countries (like tax havens), while expenses occur in high-tax countries. Accounting manipulation involves transfer pricing (Sikka, 2010), royalty and administrative payments, and increasing short-term debts to minimize profits. Legal obfuscation aims to inundate tax authorities with complicated tax filings (Dowling, 2014).

However, there are many reasons why firms should not indulge in tax avoidance. With tax avoidance, the government may need more money to provide public goods and services to its people (Sikka, 2010); government revenue is lost. Tax avoidance goes contrary to Carroll's (1999) pyramid of responsibilities, where it is deemed as not complying with taxation laws and not being ethical. Therefore, a firm is not performing its CSR by tax avoidance. Tax avoidance results in other stakeholders who are less profitable to bear the cost of public goods. This is unfair and promotes social inequality. Tax havens used to avoid tax can also be used for money laundering and other corrupt practices. In addition, due to tax avoidance, the State may add more regulations, making these tax laws more confusing and increasing compliance costs for organizations and administrative costs for the tax authorities (Dowling, 2014). Tax avoidance, a form of EM, can harm the firm and the stock market reputation (Jouber & Fakhfakh, 2012). Therefore, using CSR but carrying out tax avoidance is not socially responsible, as Carroll (1999) inferred, but rather one of organized hypocrisy (Sikka, 2010).

POTENTIAL CONFLICTS AND RESOLUTION

In the literature review of this paper, the developments of IFRS were laid out. It also discussed the reasons and benefits of adopting IFRS. Also, in the literature review, CSR and sustainability were defined. The benefits of CSR and sustainable development followed it. Subsequently, it was discussed that CSR and sustainable development can also be used to carry out EM, and therefore avoiding tax. This was followed by reasons for tax avoidance, approaches used to carry out tax avoidance, and the consequences of tax avoidance.

This section looks at the crossroads of ensuring financial transparency and integrity through IFRS and using CSR and sustainable development in carrying out tax avoidance. Therefore, this section analyses the conflicts and schisms in trying to balance, on the one hand, transparent quality financial information and, on the other hand, carrying out tax avoidance, a form of EM through CSR and sustainable development. This section will also address ways to resolve this issue.

Firstly, there are mixed results in this area. Hsu and Chen (2020) find that CSR can constrain EM under IFRS and produce higher-quality accounting information in their research on Taiwanese firms. The same results were obtained by Amidu et al. (2016) in their studies for firms in Ghana, where they found a significant negative relationship between IFRS adoption and EM, as well as a negative but insignificant relationship between IFRS adoption and tax avoidance.

However, Salewski and Zulch (2014) concluded that European firms with high CSR scores undertook EM, even though they applied IFRS. They maintain that country-specific characteristics moderate the relationship between CSR and EM despite adopting IFRS. Similarly, Braga (2017) found higher tax avoidance after firms adopted IFRS. A study by Kim and Im (2017) among small and medium-sized enterprises (SMEs) in Korea also found that tax avoidance is rampant, even after adopting IFRS (K-IFRS). This was also the case in the study done by Lee and Kao (2018) on Taiwanese firms from 2011 to 2014.

From the above, there is sufficient evidence that firms undertake CSR and sustainable development as a means of tax avoidance while simultaneously eulogizing the importance of IFRS; the issue is, what can be done to address tax avoidance while performing its CSR and strictly abiding by IFRS? What can be done to resolve this conflict and dissonance?

One way is to enforce rigid laws backed by the power of the government with specific requirements and penalties (Shaffer & Pollack, 2010, cited in Bird & Davis-Nozemack, 2016). While rigid laws must be included in a tax system, it alone is insufficient and may result in more extraordinary tax avoidance behavior. The limitations of rigid laws can be complemented with soft 'laws,' such as NGO recommendations (for example, the Global Reporting Initiative), private monitoring mechanisms (Sheppard, 2014, cited in Bird & Davis-Nozemack, 2016), allowing taxpayer participation in the formulation of tax laws (Kornhauser, 2007, cited in Bird & Davis-Nozemack, 2016), and instilling a sense of patriotism and nationalism (Torgler & Schneider, 2007, cited in Bird & Davis-Nozemack, 2016).

Another approach to mitigate tax avoidance while diligently undertaking and adopting IFRS and pursuing CSR is incorporating tax avoidance as a metric in sustainability ratings and reporting. The Global Reporting Initiative (GRI) is already considering reporting tax payments and related penalties as a metric in its sustainability framework, while the Dow Jones Sustainability Index (DJSI) has agreed to incorporate "tax strategy" into its assessment criteria (Bird & Davis-Nozemack, 2016). A firm's tax strategy may also be needed in other indices, such as the FTSE4Good Index, in screening good corporate citizenship (Bergin & Cruise, 2013). In addition, organizations may also obtain certification from Fair Tax Mark (FTM), whose standard is based on a fair and transparent system (Bird & Davis-Nozemack, 2016).

Ultimately, the intersections and impasse of tax avoidance via CSR, sustainable development, and serious IFRS adoption are best resolved by having the right organizational culture. Organizational culture is the set of taken-for-granted beliefs and values shared within a particular group (Johnson et al., 2017). According to Johnson et al. (2017), using the Culture Web will be helpful to analyze and change organizational culture. The elements of the Cultural Web are stories, power structures, rituals and routines, organizational structure, controls systems, symbols, and paradigm. Employees must embrace these elements in letter and spirit for the organizational culture to be effective.

Stories being told by members of an organization may act to embed the right values of avoiding tax avoidance, adhering to IFRS, and practicing CSR. The directors of an organization may implore employees to refrain from unethical and immoral actions like tax avoidance. In addition, an organization should also have the right power structures in the form of leaders who create economically, ethically, and socially sustainable organizations and set the right tone at the top. Such leaders will refrain from tax avoidance and promote a culture of candor and transparency by encouraging truth-telling, liberating information (thus not concealing actual tax strategies), admitting mistakes, and rewarding contrarians (O'Toole & Bennis, 2009). Routines look at 'the way things are done around here,' and rituals are particular activities or special events that emphasize, highlight, and reinforce what is essential in the culture. Routines include training accounting, finance, and taxation staff to strictly adhere to IFRS, adopting GRI metrics, and refraining from tax avoidance to improve profits. Firms can also invite eminent speakers on CSR, IFRS, and tax avoidance to give their insights as part of their rituals. The next element of the cultural web is an organizational structure. Organizational structure is defined as (1) the set of formal tasks assigned to individuals and departments; (2) formal reporting relationships, including lines of authority, decision responsibility, number of hierarchical levels, and span of managers' control; and (3) the design of systems to ensure effective coordination of employees across departments (Daft, 2016, p. 322). The overarching organizational structure is its corporate governance arrangements. The Cadbury Committee (1992, cited in Mintz, 2005, p. 584) defines corporate governance as the system by which companies are directed and controlled. Therefore, good corporate governance is needed for an organization and its structure to perform well. In order to have good corporate governance, the directors must be fair; there must be independence in the board; the directors must practice transparency and probity, must be responsible and accountable, must practice good judgment and have high integrity, must practice professional skepticism, and be innovative (Kholmi, 2020; Business Roundtable, 2016). Based on the above, good corporate governance will ensure that a firm carries out its duties in a manner that enshrines quality financial reporting to its shareholders, properly pays a fair share of tax to the State, and performs its CSR to its diverse stakeholders. Corporate governance can bring about the convergence of these conflicts to arrive at a proper resolution. However, a firm's corporate governance approach must shift from an agency model to a stakeholder model, including the government as a stakeholder and treating each stakeholder fairly. Adopting the UK Governance Code may be contemplated (Financial Reporting Council, 2018) for such a shift.

The next element of the Cultural Web is control systems. Control systems can occur through policies, procedures, performance appraisal, rewards, and a code of ethics. The code of ethics can be crafted using normative ethical theories, such as Kant's Deontology (Filho & Cottrol, 2014), which will always give an unethical response to tax avoidance. Symbols in the Cultural Web refer to objects, acts, or people that convey, maintain, or create meaning over and above their functional purpose (Johnson et al., 2017). In the context of symbols, an organization can obtain certification such as Fair Tax Mark (FTM) (Bird & Davis-Nozemack, 2016) and ISO 14000 or obtain guidance on ISO 26000 (ISO, n.d.). ISO 14000 concerns environmental issues, while ISO 26000 covers social responsibility guidance. If initiated well, these symbols, working in conjunction with other overlapping elements of Culture Web, will change the paradigm of employees, that is, their fundamental underlying assumptions and their taken-for-granted beliefs. Hence, when taken together, Cultural Web elements will embed the correct values in an organization, ensuring that it refrains from tax avoidance while simultaneously pursuing its CSR and adopting IFRS strictly.

COSMETIC EARNINGS MANAGEMENT – THE CASE OF CAMBODIAN PUBLIC-LISTED COMPANY

As tax avoidance becomes rampant, Cambodian firms can also undertake such a practice through their CSR and sustainability initiatives. The precursor of tax avoidance is EM. While EM can be undertaken to ensure that earnings meet analysts' expectations so that share price continues a steady growth as well as avoiding debt covenant violations (Jordon & Clark, 2011), EM, as mentioned in the earlier sections, can also be used to reduce profits and therefore avoid paying a fair share of tax to the State. This section analyzes a public-listed firm to examine any form of EM. If the said firm has undertaken EM, then there is the possibility of greater 'innovation' to avoid tax in the future.

This analysis aims to determine any form of cosmetic EM to increase earnings just enough to cross a particular reference point. Although this EM has nothing to do with tax avoidance, this analysis aims to identify any EM being carried out, and if EM can be carried out to raise earnings, then EM in the future can also be used to reduce earnings to avoid paying a fair share of tax to the State.

Research done by Gabrielle and Brenner (1982, cited in Jordon & Clark, 2011) notes that humans (for example, investors) possess only a limited amount of memory and, when remembering numbers, place more emphasis on the first digit and increasingly less significance to the second, third and successive digits. Furthermore, when storing numbers in their memory, humans tend to round down rather than round up (Carslaw, 1988, cited in Jordon & Clark, 2011). In 1881, astronomer and mathematician Simon Newcomb surmised that low numbers occur more frequently in practice than high numbers. Fifty years later, General Electric physicist Fran Benford made the same discovery (Jordon & Clark, 2011). This analysis will make use of Benford's Law to determine potential cosmetic EM (Jordon & Clark, 2011), as shown in Table 1 below.

Table 1: Benford's Law – Position of the Digit in Number

Digit	First	Second
0	-	11.97%
1	30.10%	11.39%
2	17.61%	10.88%
3	12.49%	10.43%
4	9.69%	10.03%
5	7.92%	9.67%
6	6.70%	9.34%
7	5.80%	9.04%
8	5.12%	8.76%
9	4.58%	8.50%

This law states that the number 1 possesses a 30.10 percent chance of appearing in the first digital position within a number. In contrast, a 9 has only a 4.58 percent likelihood of occurring within a number's first digital position. Cosmetic EM is manifested when there is a combination of an unusually small frequency of large numbers in the second digital position and an abnormally large distribution of low numbers in the second digital position.

A public-listed company in Cambodia is arbitrarily chosen to examine any cosmetic EM. At the very onset, it has to be clarified that this analysis is purely academic. Even if cosmetic EM is detected, this paper merely intends to broaden the discourse of EM and does not intend to tarnish any specific firm. It is also best to keep the firm's identity confidential.

Table 2 shows the profit and loss of a public-listed company in Cambodia from 2018 to 2020.

Table 2: Profit and Loss for the Years 2018-2020

Profit/loss	2020	2019	2018
Total revenues (USD '000)	81,092	54,124	66,273
Profit/loss before tax (USD '000)	30,187	12,323	23,877
Profit/loss after tax (USD '000)	22,088	8,323	19,125
Total comprehensive income (USD '000)	22,088	8,323	18,402

For cosmetic EM to occur using Benford's Law, the second digit will have a relatively large distribution of low numbers. Taking the figures above and examining the second digit of the profit/loss, Table 3 is produced.

Table 3: Second Digit of Profit/Loss for the Years 2018-2020

Profit/loss	2020	2019	2018
Total revenues (USD '000)	1	4	6
Profit/loss before tax (USD '000)	0	2	3
Profit/loss after tax (USD '000)	2	3	9
Total comprehensive income (USD '000)	2	3	8

The second digits for the year 2018 have generally more significant numbers than the years 2019 and 2020. Using Benford's Law, cosmetic EM may not have occurred in 2018. However, the second digits for 2019 are much smaller than 2018, and the second digits for 2020 are much smaller than 2019. From 2019 to 2020, the second digit for total revenue changed from 4 to 1, the second digit for profit/loss before tax changed from 2 to 0, the second digit for profit/loss after tax changed from 3 to 2, and finally, the second digit for total comprehensive income had changed from 3 to 2. Hence, there is an increasing frequency of smaller numbers in the second digit position. As such, cosmetic EM may occur, where the first digit may have been manipulated to increase by 1. This is not saying in the affirmative; the low second digit may have occurred by chance. However, this paper encourages readers to look at EM from the more malignant intentions and cosmetic EM, as was the intention of Benford's Law.

To address cosmetic EM, the government of Cambodia may want to consider developing specific corporate governance laws, as what has been done in the USA with the implementation of the Sarbanes-Oxley Act, where research done by Jordon and Clark (2011) showed that their 2003-2006 data had no cosmetic EM. In addition, as mentioned earlier, an excellent organizational culture will also help to alleviate cosmetic EM.

CONCLUSION

This paper first discussed the literature on the evolution of IFRS and why companies and countries are adopting it. This was followed by the benefits of IFRS and the conditions needed for it to succeed, namely, having proper laws to protect investors, such as those found in countries with common laws.

The literature review then progressed to firms undertaking tax avoidance through their CSR and sustainable development initiatives, a form of EM. Reasons were provided on why firms do so, the approaches to adopting tax avoidance, and the negative repercussions of tax avoidance. Subsequently, it examined the impasse experienced since firms undertake IFRS but simultaneously carry out tax avoidance in the guise of CSR and sustainable development, hence, the dark side of stakeholder management. Various ways to address this intersectional impasse were then recommended, chief among them is to have the right organizational culture and adopt the recommendations based on the Cultural Web. Finally, this paper analyzed cosmetic EM using a public-listed Cambodian firm using Benford's Law. From this elementary analysis, some cosmetic EM may have occurred, or the low numbers in the second digit may have occurred by chance.

This paper hopes to stimulate a broader discourse that, on the one hand, companies are adopting IFRS to ensure better financial reporting quality. On the other hand, the dark side of stakeholder management rears its ugly head when firms use CSR and sustainability development to depress profits to avoid paying a fair share of tax to another legitimate stakeholder, the State. In addition, the precursor of any tax avoidance is EM, and any company carrying out EM, although it might be cosmetic, may soon elevate to another level, namely tax avoidance. This paper hopes to encourage more excellent reflection in this area.

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