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# CORPORATE TAXATION: A MATTER OF SOCIAL RESPONSIBILITY

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*To my beloved Veronica and to my family,*
*for the love and affection they give me.*

"Taxes are what we pay for a civilized society"

*Oliver Wendell Holmes Jr,*
*U.S. Supreme Court Justice*

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# TABLE OF CONTENTS

# 1.

# INTRODUCTION

## 1.1 Preface

### *1.1.1 The Business & Society field*

This thesis is embedded in the business and society (B&S) academic field and investigates an issue which has recently entered the B&S debate, posing new and intriguing challenges for scholars working in this field, that is corporate taxation.

The relationship between business and society has become a salient topic over the last decades. A fundamental truth is that "business cannot exist without society and that society cannot go forward without business" (Joyner and Payne 2002, p. 298). Society is dependent upon businesses for its sustainment and economic development, while businesses are dependent upon society for their own existence and growth.

In particular, businesses are such influential and powerful global actors that their impacts on wider society need to be closely scrutinized. For this reason, a growing number of scholars have turned their attention to understanding and investigating how businesses can (and should) contribute towards making the world a better place. The B&S field is accepted and institutionalised in the area of management studies (Wood 2000; Wokutch et al. 2018), as evidenced by dedicated academic journals (e.g., *Business Ethics: A European Review*, *Business Ethics Quarterly*, *Business & Society*, *Business & Society Review, Business Strategy and the Environment*, *Corporate Governance: An International Review*, *Corporate Social Responsibility and Environmental Management*, *Journal of Business Ethics*, *Journal of Corporate Citizenship*) and academic associations (e.g., *Centre for Social and Environmental Accounting Research* (CSEAR), *European Business Ethics Network* (EBEN), *International Association for Business & Society* (IABS), *Social Issues in Management* (SIM) *Division of the Academy of Management*, and *Society for Business Ethics*).

Moreover, the business world too has become increasingly aware of the need to address social issues and to communicate how companies relate to society. This is evidenced by a long-standing tradition of numerous corporations to maintain codes of ethical conduct, as well as to publish reports (i.e., CSR or Sustainability Reports), and include dedicated sections in their websites, in which they account for their commitment towards enhancing the social good. Interestingly, in August 2019, the Business Roundtable released a new Statement on the Purpose of a Corporation signed by 181 CEOs, in which they acknowledge that

> "While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders […] Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country" (BRT 2019).

This statement, which overcomes the idea that maximizing shareholder value is the main purpose of for-profit corporations, is portrayed "as an important moment in our understanding of how management is studied and practiced" (Harrison et al. 2020, p. 1224).

Broadly speaking, B&S scholars devote attention to understanding the business organisation and its relationships with society. According to Frederick (1997), B&S means "the relationship that business firms have with society's institutions and nature's ecosystems; and … the field of management study that describes, analyzes, and evaluates these complex societal and ecological linkages" (p. 48; cited in Schwartz and Carroll 2008 p. 152). The B&S field has drawn from a variety of disciplines with "the aim of constructing a new vision of business' roles in societies" (Wood 2000, p. 361). This field moves from the assumption that businesses not only function in a competitive environment to produce goods and services and contribute to the economic progress, but also have a social role, or better some "social responsibilities to society because of their social impacts" (Buchholz and Rosenthal 1997, p. 181). Then, businesses must acknowledge society's existence and society's growing demands for more ethically responsible business practices.

This field is unique within the area of management studies because, despite the different approaches, all B&S scholars are driven by "a deep-seated desire to use our talents and gifts to make the world a better place" (Wood 2000, p. 368). Swanson claims that "the mission of the business and society field is to find and develop a constructive business relationship with society" (Swanson 1999, p. 506). Towards this ambitious and laudable end, research in the B&S field aims to "look at the impact of business on a societal issue, … to analyze a societal issue on business, or … to look at the interplay of such an issue on business and society" (Crane et al. 2015, p. 427).

Since its inception, the B&S field has covered many social issues such as "the human rights, labour and employment practices (such as training, diversity, gender equality and employee health and well-being), environmental issues (such as biodiversity, climate change, resource efficiency, life-cycle assessment and pollution prevention), and combating bribery and corruption" (European Commission 2011, p. 7). However, business and society continuously negotiate the social role of management and, consequently, new social problems and corporate issues may become relevant for the B&S debate. In other words, "expectations regarding the extent of business responsiveness to, and involvement in, social issues has been changing and evolving" (Panwar et al. 2014, p. 857).

The B&S field is dominated by several theoretical frameworks or constructs which help to understand the business and society relationship. In particular, three main paradigms have gained adequate theoretical and practical legitimacy (Buchholz and Rosenthal 1997; Schwartz and Carroll 2008; Dentchev 2009; Lawrence and Weber 2017; Carroll et al. 2017), which are: a) *Business Ethics*; b) *Corporate Social Responsibility*; and c) *Stakeholder Theory*.

### *1.1.2 Corporate taxation as a B&S issue*

This thesis deals with a topic which has only recently joined the B&S debate, that is the issue of corporate taxation. For many decades, the payment of corporate tax was considered as a legal and technical issue, entirely governed and regulated by governments. Legislation was seen as the only appropriate tool to ensure that companies paid their share of taxes to pursue the interests of communities. In other words, with regard to the payment of corporate tax, the relationship between business and society was traditionally conceived as *mediated* by governments, which are responsible for collecting tax revenues and then redistributing them to society in the form of public goods and services. However, in recent years, corporate taxation has become an increasingly important dimension of the *direct* relationship between business and society. Businesses are now expected to take a continuously more active role in corporate taxation and embrace the payment of corporate tax as a moral and social responsibility.

The growing importance of the tax behaviour of businesses for the B&S field can be attributed to five main elements: 1) the intrinsically social nature of corporate tax payments; 2) the scale of corporate tax malpractices and their harmful impact on society; 3) the inadequacy of the legal tax system; 4) the discretion of companies in tax decision-making; 5) the growth of new social demands and expectations over corporate tax policies. Each of these aspects are briefly discussed in the following.

#### *1.1.2.1 The intrinsically social nature of corporate tax payments*

Corporate taxation plays a major role in managing the relationships between corporations, society, and the state. As any other taxes, the goals and the functions of corporate taxation are intrinsically social. Avi-Yonah (2004, p. 1249) argues that corporate tax is "justified as a way for a liberal democratic state to limit excessive accumulations of power in the hands of corporate management, which is inconsistent with both democratic and egalitarian ideals. It achieves this goal in two ways: by directly limiting the rate of corporate wealth accumulation and by regulating managerial uses of corporate assets and channelling it in directions deemed beneficial to society as a whole". Therefore, corporate taxation represents a means to regulate companies' contribution to the betterment of society. Corporate tax payments enable governments to fulfil their functions, such as the provision of public goods and services, and reduce the unequal distribution of income and wealth that results from the normal operation of a market-based economy (Avi-Yonah 2006). For these reasons, corporate tax payments can be considered a tangible and important area of corporate engagement with society, which "can make a significant difference to the quality of life of millions of people" (Lanis and Richardson 2012, p. 93) and can be considered a clear measure of the direct financial contribution a company makes to an elected government (Dowling 2014). Using the words of Christensen and Murphy (2004, p. 37), "Paying taxes is perhaps the most fundamental way in which private and corporate citizens engage with broader society".

Recent data from the OECD's Corporate Tax Statistics (OECD 2020a) document the importance of corporate tax revenues for the development and maintenance of society. In 2017, the share of corporate tax revenues in a country's total tax revenues was 14.6% on average, but it was much larger in developing economies, such as Africa (18.6%) and Latin America & the Caribbean (18.6%).

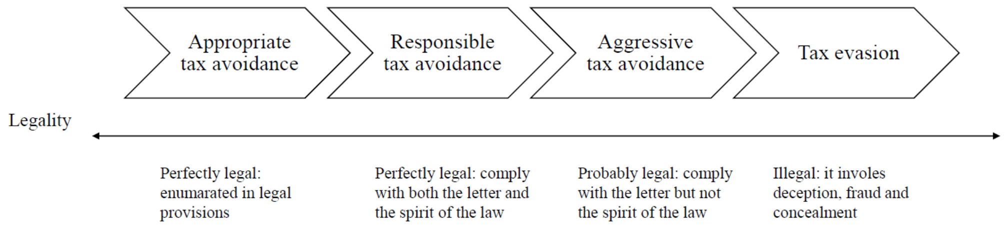
The social implications of corporate tax payments are exacerbated by the serious challenges the world is facing in these times. On the one hand, the world is struggling against the COVID-19 pandemic and government coffers around the world desperately need resources to fund health care and social spending to respond to the economic crisis. On the other hand, corporate tax revenues are vital for achieving the 17 UN Sustainable Development Goals (SDGs) (IMF, OECD, UN, WBG 2018) adopted by all UN Members States as part of the 2030 Agenda for Sustainable Development "to build a better future for all people" (UN 2015, p. 16).

#### *1.1.2.2 Corporate tax malpractices and their harmful impacts on society*

Most managers and tax practitioners fail to recognise the social nature of corporate tax payments. In most cases, the payment of corporate tax is simply seen as "a business transaction and one of the many costs of operating a firm" (Lanis and Richardson 2015, p. 442). Therefore, many companies seek to structure their tax affairs with the main objective of reducing their overall tax exposure, to increase their after-tax profits and their competitiveness.

Tax minimization strategies are usually divided into legal and illegal activities (Figure 1.1). At one extreme, there is 'tax evasion', an illegal behaviour involving deception, fraud and concealment (Hasseldine and Morris 2013; Fisher 2014). At the other, there is 'tax avoidance' which refers to tax minimization strategies within the legal framework. Three different forms of tax avoidance are usually identified. First of all, "appropriate" (Payne and Raiborn 2018, p. 470) or "state-induced" (De Colle and Bennett 2014) tax avoidance refers to tax reduction based on enumerated provisions in the legislation, usually encouraged by the State to achieve socially desirable ends. Secondly, "legitimate" (Barker 2009), "strategic" (De Colle and Bennett 2014) or "responsible" (Lenz 2020) tax avoidance refers to those activities aimed at reducing corporate tax liabilities as part of a commercially sound business strategy and that are compliant with both the letter and the spirit of the legislation.

**Figure 1.1** Tax minimization strategies




Source: adapted from Lenz (2018)

Conversely, “impermissible” (Barker 2009), “aggressive” (Lenz 2020; Payne and Raiborn 2018) or “toxic” (De Colle and Bennett 2014) tax avoidance refers to “the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow” (OECD 2017).

In this thesis, the terms tax avoidance or aggressive tax planning are used with the meaning of aggressive tax avoidance, to refer to corporate tax practices that aim to reduce a firm’s tax liability whilst staying within the bounds of what is legally acceptable.

Corporate tax avoidance is widespread throughout the world, especially among multinationals. Recently, the Institute of Taxation and Economic Policy (ITEP) has revealed that 91 profitable corporations out of the Fortune 500 companies did not pay federal income taxes on their 2018 US income, while 56 companies paid effective tax rates between 0% and 5% in 2018 (ITEP 2019). In 2011, ActionAid revealed that of the 100 groups listed on the London Stock Exchange (FTSE 100), 98 make use of tax havens (ActionAid 2011).

Although technically legal, corporate tax avoidance has a dramatic impact on our societies. According to the OECD, governments are estimated to lose around 4-10% of global corporate income tax revenues, or USD 100-240 billion annually, due to corporate tax avoidance (OECD 2015, p. 4). Other studies estimate that corporate tax avoidance collectively cost governments between $ 500 billion and $ 600 billion a year in lost corporate tax revenue (Cobham and Janský 2018; Crivelli et al. 2016; Janský and Palanský 2019; Johansson et al. 2017; Tax Justice Network 2017; 2020b).

In November 2020, the Tax Justice Network released ‘The State of Tax Justice 2020’ report, which presents comprehensive estimates of the huge sums of tax each country in the world loses every year to corporate and private tax abuse. The report provides evidence that the world is losing over $ 427 billion in tax a year to international tax abuse, which is the equivalent of over 34 million nurses' annual salaries (Tax Justice Network 2020a). Of the $427 billion, nearly $245 billion is lost to multinational corporations shifting profit into tax havens.

Furthermore, regular headlines and report findings tell us that corporate tax avoidance is a major problem keeping poor countries poor:

> Taxation provides a critical foundation for development. The absence of effective taxation systems in sub-Saharan Africa is directly responsible for the unacceptably high levels of poverty suffered by so many on the continent. TJN-A and Christian Aid believe that taxes are crucial for mobilising revenue to fund services, infrastructure and other development needs, and for building the accountability of states to their citizens (Tax Justice Network Africa and Christian Aid 2014, p. 24).
>
> Taxation is important for development, not only because taxes provide the revenues to fund public services and infrastructure, but because they are a critical accountability link between governments and citizens (International Centre for Tax and Development 2014)
>
> The world's biggest drug companies are putting poor people's health at risk by depriving governments of billions of dollars in taxes that could be used to invest in health care, and by using their power and influence to torpedo attempts to bring down drug costs and police their behavior (Oxfam 2018, p. 4).
>
> The low amount of tax raised by developing countries often leads to a situation where governments cannot obtain the financial resources required to guarantee citizens' access to essential services, such as healthcare, clean water and sanitation, and education. In addition, low tax revenues often imply the need for governments to increase debt and aid levels, which in turn can skew accountability towards creditors and donors (Christian Aid 2013, p. 5).
>
> For decades multinational companies have been shifting profits, concealing information and avoiding taxes in the countries where they make their sales or buy their raw materials. …. The result is that developing countries lose hundreds of billions of dollars every year - money that could have gone towards providing vital resources such as education, healthcare and agriculture – while large companies make huge profits from their natural resources and workforce (ActionAid 2013, p. 3)

Additionally, citizens lose out either by having to foot the bill through higher taxes for public goods and services that would otherwise have been financed by corporate income tax receipts, or foregoing such services, while small-medium enterprises and purely domestic firms find it difficult to compete with multinational firms that have more resources and opportunities to lower their tax bills.

#### *1.1.2.3 The inadequacy of the legal tax system*

For many decades, corporate taxation was considered solely a legal issue, where governments had the responsibility to translate the obligation to pay tax into the legal framework and companies were 'only' expected to comply with tax laws. This equilibrium was deemed as appropriate to ensure that companies paid a fair contribution to fund the provision of public goods and services.

Nevertheless, the principles of the international corporate tax system, which were laid down under the League of Nations in the 1920s, have proved to be inadequate for taxing corporations in a world characterised by increasingly digitalised and globalised business models. National and international institutions (e.g., EU and OECD) have dedicated great effort to tackle corporate tax avoidance and have developed projects and initiatives to revise the international tax framework, by closing legal loopholes and solving mismatches among different national regulations. For instance, in 2013 the G20 finance ministers called on the OECD to develop a project to design new international standards in order to address the weaknesses in the current tax rules and prevent cases of no or low corporate taxation (OECD 2013a). This project is known as "Base Erosion and Profit Shifting" (BEPS) and resulted in a comprehensive package of measures that countries were recommended to implement (OECD 2015). Following the global standards developed by the OECD, in 2016 the European Commission presented the 'Anti-Tax Avoidance Package', including new legally-binding measures as well as recommendations to Member States, to take a stronger and more coordinated stance against companies that seek to avoid paying their fair share of tax (European Commission 2016a).

Governments and intergovernmental institutions seem to have a limited capacity to set effective tax regulations that work for a global marketplace. It seems that no matter what states introduce to close tax loopholes, corporations and their sophisticated tax professionals will find other legal opportunities to be exploited and escape the attention of tax authorities (Ylönen and Laine 2015: Munisami 2018). Indeed, legislation will inevitably always be imperfect and open to different interpretations, lagging behind the evolution of corporate business models (Gribnau 2015).

Additionally, the traditional deterrence model based on monetary sanctions is said to be limited because it can result "in firms engaging in a monetary cost benefit analysis to determine whether to engage in the undesirable conduct" (Bird and Davis-Nozemack 2018, p. 1011) and, sometimes, it is the same national governments that introduce favourable tax regulations to attract foreign investment, resulting in what is known as a "race to the bottom" (Killian 2006, p. 1082). Globalisation has created an environment in which governments may be induced to adopt harmful preferential tax regimes to attract companies. Multinationals can use various strategies (i.e., transfer pricing) to move profits and their tax bases around the globe in order to shift profits to jurisdictions (known as tax havens, offshore financial centres, or secrecy jurisdictions) “that feature distinctive characteristics such as low or zero taxation, fictitious residences (with no bearing on reality) and tax secrecy” (European Parliament 2018a, p. 3). This tax competition between states, by its very nature, is asymmetric, meaning that some benefit at the expense of others. Tax competition can distort trade and investment patterns, erode national tax bases and shift part of the tax burden onto less mobile tax bases, such as labour and consumption, thus adversely affecting employment and undermining the fairness of tax structures (Shaxson 2019; OECD 1998).

#### *1.1.2.4 The discretion of companies in tax decision-making*

Although the payment of corporate tax cannot be considered voluntary, international tax rules are so incomplete and open to different interpretations (Gribnau 2015; Ostas 2020), that multinationals have considerable discretion as to how to arrange their tax affairs and, consequently, how much tax they pay (Muller and Kolk 2015, p. 440). The blurred boundaries of the legal framework leave a ‘moral free space’ in which companies can choose how to plan corporate tax affairs and determine how much tax to pay (Zicari and Renouard 2018; Hillenbrand et al. 2019, p. 404). Companies’ discretion in tax planning has been enhanced by the intensification of globalisation (Gribnau and Jallay 2019; Panayi 2015): MNEs operate across different countries, with differences in terms of degree of legalization, compliance and avoidance opportunities and where regulatory vacuums exist (Scherer and Palazzo 2008), which allow businesses “to shop for the best bundles of tax obligations they can find” (Sikka 2010, p. 156). In this context, international businesses can pursue a variety of aggressive and complex tax planning techniques to reduce their tax bills legally (Cooper and Nguyen 2020; Ftouhi and Ghardallou 2020; Otusanya 2011) such as: the transfer of revenues by geographical area through transfer pricing manipulation; the redevelopment or the reorganisation (e.g., mergers, acquisitions, and divisions) of the business; the use of tax havens; the exploitation of loopholes in tax legislation; the use of capital structure and internal debt.

#### *1.1.2.5 New social demands and expectations over corporate tax policies*

A force which has significantly contributed to include corporate taxation in the B&S debate is the increased public concern over companies’ tax behaviour. The growing involvement of media, civil society actors (e.g., Tax Justice Network, UK Uncut, Ethical

Consumer, Fair Tax Mark), and NGOs (e.g., ActionAid, Christian Aid and Oxfam) in scrutinizing companies for their tax behaviour has transformed this issue "from a narrow technical discussion for specialists to one that is overtly ethical and social" (Sustainability 2006, p. 12). Lying at the heart of public concern over corporate taxation there is not (only) the legality of certain corporate tax practices, but especially whether "those same practices are acceptable, just or socially responsible" (Ylönen and Laine 2015, p. 8). Since MNEs have many opportunities to minimize their tax burden within the legal framework, compliance with the law is no longer perceived as enough to ensure a socially appropriate behaviour.

Hence, many companies have come under heavy public scrutiny over their tax minimization schemes which, although legal, have begun to be perceived, and publicly labelled, as immoral practices to increase corporate profits at the expense of the wider society. At the core of this public concern over corporate tax avoidance lies the growing recognition that the lack of corporate tax payments can be seriously detrimental for wider society, probably also as a consequence of the deterioration of public budget caused by the 2008-2009 global financial crisis (Knuutinen 2014; Zicari and Renouard 2018; De la Cuesta-González and Pardo 2019).

## 1.2 Aims of the thesis

The main motivation behind this research can be found in the author's personal concern about stories of big companies engaging in complex and aggressive tax planning strategies to pay ridiculous amounts of tax in a technically legal way, despite making large profits and claiming to be responsible businesses and good corporate citizens. Thus, the research was motivated by the author's personal desire to contribute to the development, and the institutionalisation, of a new way for companies to conceive and approach corporate tax payments, which considers and respects the interests of wider society and local communities.

The author personally considers corporate tax payments as the cornerstone of the relationship between business and society and, then, one of the most important social and moral responsibilities of businesses towards society. More precisely, the author believes that the achievement of a fair, credible and trustworthy taxation system where all corporate and individual taxpayers pay an appropriate share of tax and tax avoidance is definitely tackled, requires mutual collaboration between companies and governments. While governments bear the ultimate responsibility for creating an effective legal framework which gives substance to the obligation to pay tax and to the undertaking of regulatory actions to tackle tax avoidance, businesses are expected to radically change their approach to, and their mode of thinking about, corporate taxation, by aligning their tax policies to the wider requirements of socially responsible and ethical business conduct.

Based on this context, the major objective of this thesis is to investigate corporate taxation from a B&S perspective. More specifically, this thesis intends to contribute to theory in three main ways. First, this work seeks to broaden our knowledge of the ethical responsibilities associated with corporate tax payments, shedding light on how companies should behave when it comes to tax to ensure that the needs and the expectations of wider society are fulfilled. Second, this thesis attempts to improve and enhance our understanding of the significance and the relevance of CSR in the context of corporate taxation. To do so, this work intends to explore the main factors that drive (and restrain) the application of CSR thinking and practices in the area of corporate taxation, as well as to investigate the evolution of the CSR configurations which has dominated this issue over the years. Third, this thesis intends to elucidate the role of stakeholders in tackling tax avoidance and facilitating the transition towards more responsible and ethical tax behaviour. Finally, the author hopes that this work may serve as a stimulus to encourage more B&S scholars to devote their attention to the issue of corporate taxation, as well as a basis for future studies on this topic. For this reason, this thesis attempts to thrown up and delineate the most urgent research questions that need further investigation.

Additionally, this work aims to offer some practical implications, both for companies and policymakers. On the one hand, this research seeks to assist managers and tax practitioners to gain a more nuanced understanding about what a responsible approach to corporate taxation is like. Offering a roadmap of ethical and responsible tax practices, this research can provide a starting point for companies willing to change their attitude towards taxation. On the other hand, this research aims to contribute to the fight against tax avoidance, illuminating alternative mechanisms that policymakers can leverage in their attempts to achieve a fairer corporate tax system.

## 1.3 Structure and overview of the thesis

To reach its goals, this research examines the issue of corporate taxation under the three theoretical frameworks which dominate the B&S field: business ethics, corporate social responsibility, and stakeholder theory. Therefore, as summarized in Table 1.1, this thesis is organised around three main pillars: 1) corporate taxation and business ethics (chapter 2); 2) corporate taxation and corporate social responsibility (chapters 3, 4, and 5); 3) corporate taxation and stakeholder theory (chapter 6).

**Table 1.1** Structure of the thesis

| | **Business Ethics** | **Corporate Social Responsibility** | **Stakeholder Theory** |
|---|---|---|---|
| 1. Introduction | | | |
| 2. Ethics of corporate taxation: a systematic literature review | What are the main ethical issues associated with corporate taxation? What is the potential of normative ethical theories to address corporate decision-making around tax? | | |
| 3. Why is corporate taxation a CSR issue? A systematic literature review | | Which argumentations have been developed to justify a CSR approach to corporate taxation? What is currently known about the relationships between CSR and corporate taxation? | |
| 4. Responsible corporate taxation: an issue of implicit or explicit CSR? | | What is the appropriate CSR configuration for dealing with corporate taxation? How has this configuration changed over the years? | |

| | | | |
|---|---|---|---|
| 5. The path towards corporate taxation as a CSR issue: the role of tax responsibility initiatives | | What is the meaning of socially responsible tax behaviour? How should companies behave to be perceived as socially responsible when it comes to tax? | |
| 6. The role of stakeholders in corporate tax decision-making | | | How can stakeholders influence corporate decision-making about tax? |
| 7. Further considerations: a citizenship perspective in corporate taxation | | | |
| 8. Conclusion | | | |

Some further considerations are provided in chapter 7, where the different conceptions of corporate citizenship are used to investigate the social responsibilities of business in the context of corporate taxation. Each of these frameworks has the potential to illuminate the role and the responsibilities of companies, and their stakeholders, for achieving a fair and just tax system.

The following sections provide a brief overview of the thesis, in order to clarify how the different parts are connected to each other and contribute towards the purpose of the research.

### *1.3.1 Pillars I. Corporate Taxation and Business Ethics*

As a first step, the research scrutinizes the ethical dimension of corporate taxation.

Corporate taxation is regarded as an increasingly important area in the business ethics debate, with many companies publicly accused of engaging in immoral or unethical tax practices. For instance, UK chair of the Public Accounts Committee Margaret Hodge accused Google of being "calculated and unethical" over how it pays tax in the UK[1], while US President Barack Obama urged lawmakers to end a tax loophole that allows US

[1] See https://www.bbc.com/news/av/business-22554548.

companies to avoid paying US corporate taxes, declaring "My attitude is I don't care if it's legal, it's wrong"[2] . Additionally, former UN Secretary General Kofi Annan wrote "It is unconscionable that some companies, often supported by dishonest officials, are using unethical tax avoidance, transfer pricing and anonymous company ownership to maximize their profits while millions of Africans go without adequate nutrition, health and education"[3].

The growing focus on the ethical dimension of corporate taxation is a consequence of the discretion that companies face in the decision-making around tax, due to the above-mentioned limitations of the international tax framework. The Institute of Business Ethics (IBE) highlights that corporate taxation "falls into the realm of ethics because businesses have a choice about their approach to interpreting the law and hence paying taxes. Whilst remaining legal in all it does, where a business draws its ethical line regarding how to interpret the tax laws and arrange its affairs, is subject to a good deal of discretion. This can extend to where it pays its taxes" (IBE 2013). So, when it comes to tax, businesses operate in a moral free space in which they can choose between different opportunities to comply with tax laws.

Corporate taxation started to be discussed under the framework of business ethics mainly to guide companies in their ethical assessment in those areas where the law is incomplete, unclear or open to different interpretations. This means adopting a normative approach, which consists in conducting a moral reasoning on corporate decision-making around tax to achieve a justifiable agreement about what is morally right and wrong.

The ethics of corporate taxation is the focus of the second chapter of this thesis ("*Ethics of corporate taxation: a systematic literature review*"). This chapter presents a systematic review of the growing literature investigating corporate tax practices through the prism of business ethics. This review serves a twofold purpose. First, a descriptive analysis of the literature enhances our understanding of the evolution, the scope, and the state-of-the-art of the academic debate on corporate taxation as a business ethics issue, and provides a basis from which to offer paths and suggestions to encourage future research. Second, the chapter explores the potential of normative ethical theories for ethical decision-making around corporate taxation. Various philosophical and ethical theories have been

[2] See https://www.bbc.com/news/business-28477890.
[3] See https://www.un.org/africarenewal/magazine/december-2013/illicit-financial-flows-africa-track-it-stop-it-get-it.

applied to assess the morality of corporate tax evasion and, in particular, corporate tax avoidance. Therefore, a systematic and comprehensive review was much needed to consolidate our knowledge of what is generally considered as morally right and wrong in corporate tax behaviour. Additionally, this review offers a solid theoretical framework on which companies can base and justify their tax-related decisions and activities in widely accepted ethical theories and solid moral argumentations.

### *1.3.2 Pillars II. Corporate Taxation and Corporate Social Responsibility*

The last few years have witnessed increasing recognition of the importance of the connections between the payment of corporate tax and CSR. For instance, the International Centre for Tax and Development (ICTD) defines responsible tax behaviour as the next frontier of CSR, while CSR Europe, the leading Business Network on Corporate Social Responsibility, highlights how "tax as part of a company's wider corporate social responsibility (CSR) is increasingly becoming the new standard for business" (CSR Europe 2019). Also, the European Commission argued that "by paying taxes businesses can have an important positive impact on the rest of society. Aggressive tax planning could be thus considered contrary to the principle of Corporate Social Responsibility" (European Commission 2012, p. 6), while the European Parliament noted that "a business' tax policy should be considered part and parcel of CSR" (European Parliament 2013, p. 3).

The main idea behind this approach is that if the payment of corporate tax is a contribution for the well-being of society, and CSR, at its fundamental level, involves corporate activities to further the social good, then CSR thinking and practices should be extended and applied also to corporate taxation. In particular, CSR is considered as one of the mechanisms that can serve to tackle the problem of aggressive tax avoidance. CSR can provide a framework to guide business tax behaviour beyond mere legal compliance to seek a balance between profit seeking and a socially acceptable behaviour, especially in those arenas in which regulations are ill defined or non-existent.

Based on this context, the second pillar of this thesis aims to scrutinise the significance and the relevance of CSR in the context of corporate taxation. This phase covers chapter 3 ("*Why is corporate taxation a CSR issue? A systematic literature review*"), chapter 4, ("*Responsible corporate taxation: an issue of implicit or explicit CSR?*"), and chapter 5

("*The path towards corporate taxation as a CSR issue: the role of tax responsibility initiatives*").

A comprehensive examination of the motivations, and the justifications, for a CSR approach to taxation is an essential starting point for guiding the transition towards more responsible tax practices and for enhancing the debate in the academic literature. For this reason, the main purpose of chapter 3 is to consolidate our understanding of the reasons why corporate taxation should (or should not) be considered as an issue of CSR. To achieve this goal, chapter 3 employs a systematic literature review (SLR) to collect, map, and categorise the argumentations advanced in the literature for (or against) the application of CSR to corporate taxation. Although CSR scholarship has been silent on the issue of the payment of tax for decades, over the last few years a prominent stream of literature has devoted so much more attention that the payment of corporate tax is now considered a "hot topic in the CSR debate" (Hillenbrand et al. 2019, p. 418).

After collecting all the relevant publications, papers of the sample were content analysed and the arguments for, or against, the CSR approach to taxation were identified, mapped, and categorised based on their institutional, instrumental, or normative logic. This categorisation reflects the widely accepted distinction of the arguments for CSR and the motivations that typically drive companies to engage in practices for the social good.

Moreover, chapter 3 serves a second purpose, which is to consolidate, in a clear, transparent and impartially inclusive way, the emerging stream of research dealing with the interplay between corporate taxation and CSR. As a result, a descriptive analysis shows how research on CSR and corporate taxation has evolved over the years, and provides insights into the distribution of articles across journals, the geographical distribution of authorship and the research method applied. Finally, the chapter offers an outlook on literature gaps and further research opportunities, providing directions and suggestions for future researchers willing to contribute to this intriguing debate.

After analysing the motivations and justifications behind a CSR approach to corporate taxation, the thesis turns to a more in-depth investigation of what this approach consists of. Towards this end, chapter 4 investigates corporate taxation under the framework of implicit and explicit CSR, while chapter 5 deals with the regulation of corporate taxation as a CSR issue.

Chapter 4 builds on the assumption that for corporate taxation to be properly understood in the context of CSR, there is the need to investigate whether this issue is considered as an area of explicit or implicit CSR. The distinction between the implicit and the explicit version of CSR was developed by Matten and Moon (2005; 2008). Although under the model of implicit and explicit CSR firms may address the same kind of social issues (e.g., pay their share of corporate taxes), significant differences exist between these approaches, mainly in terms of what companies are required to do, and to communicate, to be considered socially responsible and to maintain the legitimacy to operate in society (Matten and Moon 2020). While under the implicit configuration of CSR social issues are mainly managed at the collective level of governmental institutions and companies are expected to abide by mandatory requirements defining their role in society, under the explicit version of CSR the same social issues are primarily managed at corporate level through voluntary mechanisms of self-regulation and companies communicate and publicise their involvement in society using the language of CSR.
The purpose of this chapter is also to offer a more nuanced understanding of the evolution of the legitimate CSR configuration to deal with corporate taxation, as well as of the mechanisms and the dynamics which have facilitated, and constrained, the transitions from one approach to another. Towards this end, the media are conceived as a lens that mirrors how CSR is perceived by the public and practised by companies and employs a content analysis of news articles on corporate tax-related issues, published by eight major UK newspapers (the Financial Times, The Guardian, The Times, The Daily Telegraph, The Independent, The Sun, The Daily Mail and The Mirror) in the period between 1999 and 2018.
As highlighted by chapter 4, in recent years the regulation of corporate taxation has been subject to various transformations. In particular, some initiatives have arisen to drive the transition towards a more explicit approach to responsible corporate taxation, by developing principles, standards, and guidelines which extend the CSR thinking and practice in the context of corporate taxation. The regulation of corporate taxation as a (explicit) CSR issue is the focus of chapter 5 of this thesis, in order to provide a more nuanced understanding of the meaning of socially responsible behaviour in taxation. The chapter begins with a brief discussion of literature which understands and conceptualizes CSR as a form of regulation of business behaviour and its impact on society and the

environment. The regulation of CSR involves both private and institutional actors who, using different instruments and driven by different motivations, seek to encourage and persuade firms to behave in a more socially responsible way. On the one hand, CSR has been traditionally regulated through private initiatives, developed by single non-state actors (e.g., consultancy firms, business associations, and NGOs) or by multi-stakeholder initiatives (MSIs). On the other hand, governmental and intergovernmental institutions also play a major role in promoting CSR adoption by firms, and, in a few cases, even introducing mandatory and legally binding CSR-related requirements.

Both private and public actors have been involved in various attempts to promote and recommend principles, standards and guidelines to drive companies towards a more responsible approach to their tax affairs. Building on a review of the main 'tax responsibility initiatives', chapter 5 provides a roadmap of the best practices for responsible corporate taxation, and then a framework against which to evaluate to what extent a firm's tax behaviour can be said to be socially responsible. The first part discusses the regulation of responsible corporate taxation by non-state actors, both at the level of the major CSR initiatives and at the level of specifically dedicated projects, as developed by consultancy firms, business associations, NGOs as well as multi-stakeholder networks. Second, the chapter turns to investigate the main policies initiated by intergovernmental and governmental institutions which address corporate tax-related issues through the lens of CSR. Finally, the chapter concludes by discussing more in detail the most substantive elements of these responsible tax programmes in order to advance the debate about 'what good looks like' when dealing with taxation.

### *1.3.3 Pillars III. Corporate Taxation and Stakeholder Theory*

The third part of the thesis focuses on the mechanisms through which the transition towards more ethically and socially responsible corporate tax policies can be facilitated. In particular, chapter 6 ("*The role of stakeholders in corporate tax decision-making*") investigates the role of stakeholders and discusses how their behaviour can contribute towards determining the way in which companies approach their tax affairs, and then the conditions under which companies are more, or less, likely to engage in tax avoidance strategies. This conceptual study draws on a tenet of stakeholder theory, known as *stakeholder shared responsibility*, which suggests that stakeholders can be decisive in enhancing business ethical conduct and that, at the same time, they bear part of the responsibility for corporate wrongdoing (Goodstein and Wicks 2007).

The chapter develops a model which describes the process and the mechanisms with which stakeholders can influence a firm's tax behaviour. This model starts by depicting how stakeholders may vary in their preferences over corporate tax policies, using the widely accepted distinction between *self*- and *other*-regarding stakeholders. On the one hand, self-regarding stakeholders consider their relationships with organisations as a means to serve their financial interests, while other-regarding stakeholders mainly care about how fairly an organisation treats its stakeholders. Consequently, the distinction between self-regarding and other-regarding stakeholders is used to speculate about stakeholder claims and preferences over corporate tax policies and, then, the conditions under which they prefer more socially responsible tax practices over tax avoidance, or vice versa. Secondly, the model describes the mechanisms with which other-regarding stakeholders can influence a firm's decision-making around tax policies.

### *1.3.4 Further considerations. Corporate Taxation and Corporate Citizenship*

In chapter 7 of this thesis ("*Further considerations: a citizenship perspective in corporate taxation*") some preliminary reflections are developed towards exploring how the responsibility to pay tax can be shaped and understood under different conceptions of corporate citizenship.

The chapter moves from the premise that most of the conceptualizations of corporate citizenship can be characterized as a continuum ranging from two extreme clusters, that can be termed as the *thin (*or narrow) and the *thick* (or broad) approach. The main difference is that under the *thin* conception the corporation is seen as an economic citizen whose main purpose is to follow its own self-interest within the legal boundaries, whereas the *thick* approach conceives the status of corporate citizen constituted also by the moral responsibility to go beyond immediate economic interests to contribute to the common good. This chapter explores the meaning and the nature of corporate tax responsibility under the thin and thick conception of corporate citizenship, to better understand the compatibility between good corporate citizenship and corporate tax behaviour. More specifically, the chapter investigates how the different constructs of corporate citizenship affect how the responsibility to pay tax is conceived in terms of what companies are expected to pay (the payment of the minimum amount of tax within the law vs. the payment of a fair share of taxes) and where they are expected to contribute, to be considered as good corporate citizens.

### *1.3.5 Conclusions*

This introduction highlights the growing relevance of corporate taxation for the business and society relationship. In particular, five main elements have been identified and discussed to justify the need to frame and approach corporate taxation as a B&S issue: 1) the intrinsically social nature of corporate tax payments; 2) the scale of corporate tax malpractices and their harmful impact on society; 3) the inadequacy of the legal tax system; 4) the discretion of companies in tax decision-making; 5) the growth of new social demands and expectations over corporate tax policies. As mentioned above, the main objective of this thesis is to broaden our knowledge of corporate taxation as a B&S issue. This research was motivated by author's personal concern about stories of companies paying ridiculous amount of tax to maximize their profits, without caring about the dramatic impacts of their tax practices for the wider society. To achieve this goal, this work explores corporate taxation from a range of business and society perspectives: business ethics; corporate social responsibility; stakeholder theory; and (partially) corporate citizenship.

The author hopes that this thesis represents a (small) step towards the understanding, and the institutionalization, of a new approach to corporate tax practices, which can be said to be truly respectful of the interests and needs of wider society. The overall conclusions of this thesis are presented in chapter 8, which summarizes the main research findings, discusses the main contributions to theory and practice, and offers some suggestions for future research avenues.

# PILLAR I.

# CORPORATE TAXATION AND BUSINESS ETHICS

The first part of this thesis investigates corporate tax practices through the prism of business ethics in order to address the corporate ethical responsibilities associated with taxation.

Although commercial practices have always existed and, consequently, business ethics is rooted in the earliest history of mankind, De George (1987) is often considered as the first to have distinguished business ethics as a separate academic field of study. He argues that “the development of business ethics began in the 1970s” (De George 1987, p. 202) and that “by 1985 business ethics had become an academic field, albeit still in the process of definition” (De George 1987, p. 203).

In general terms, business ethics is presented as a branch of general ethics that is concerned with the moral adequacy of business actions (Goodpaster 1991). De George (1987, p. 204) broadly defines business ethics as “the interaction of ethics and business”. Hence, defining ethics is a necessary starting point for understanding what business ethics is about. Ethics is derived from the Greek word *ethikos*, meaning ‘ideal’ or ‘excellence’ and has been defined as the conception of what is right and fair conduct or behaviour (Carroll 1991). Ethics is closely linked to moral frameworks which provide the structure for guiding individuals to choose between right and wrong, good and bad, and acceptable and unacceptable courses of action. Raiborn and Payne (1990, p. 879) define ethics as “a system of value principles or practices and a definition of right and wrong”. Thus, these statements of ethics or value judgements attempt to ascribe value to actions, so actors can determine whether or not they should engage in the action (Joyner and Payne 2002).

Ethics is usually juxtaposed to law. In a sense they are similar because both seek to define proper and improper behaviour. The law can be considered the institutionalisation or codification of ethical principles into written and enforceable rules. Therefore, legality stems from what society believes is morally right or wrong. However, the law does not cover every possible ethical issue. Laws “reflect a society’s attitudes and desires about the culture in which it wishes to exist. Thus, sometimes society may condone an act as legal although that act, in itself, may be viewed as immoral” (Raiborn and Payne 1990 p.

879). Consequently, legitimizing a morally wrong act because of its legal nature does not make that act any more moral.

Having said that, business ethics can be defined as the study of business situations, activities and decisions where issues of right and wrong are addressed (Crane et al. 2019). Similarly, Buchholz and Rosenthal (1997, p. 183) define business ethics as the normative approach to the B&S field, "where the concern is to hold managers and their firms responsible for implementing ethical principles in their organizations and using moral reasoning in their decisions, formulation of policies and strategies, and in the general direction of their enterprises".

So, business ethics is about the identification, and the application of moral principles, ethical notions, and value-driven rules that constitute acceptable behaviour in organisational, commercial and business contexts (Dentchev 2009, p. 20). Although the field of business ethics covers a broad range of topics, its core "is based in moral philosophy and its use of moral standards (i.e., values, principles, and theories) to engage in ethical assessments of business activity and to prescribe ethical courses of action" (Scwartz and Carroll 2008, p. 159). Central questions in the field of business ethics are: "what is ethically responsible management? How can a corporation, given its economic mission, be managed with appropriate attention to ethical concerns?" (Goodpaster 1991, p. 53).

It is important to highlight that business ethics refers to the application of general ethical theories to business behaviour, and not a special set of ethical ideas applicable only to business. Furthermore, in order to be considered ethical, a "business must draw its ideas about what is a proper behaviour from the same sources as everyone else in society" (Lawrence and Weber 2017, p. 95). Business ethicists seek to understand the ethical contours of, and devise principles of right actions for business activities. Towards this end, they investigate the implications of a normative framework for a range of issues in business, making use of different philosophical and ethical theories.

To summarize, business ethics has an inherently normative nature and focuses on moral reflection and on the ethical responsibilities of individuals operating within a business context mainly serving as a theoretical basis for managers' ethical decision-making.

The second chapter of this thesis ("*Ethics of corporate taxation: a systematic literature review"*) analyses the ethics of corporate taxation. Corporate taxation is regarded as an increasingly important area in the business ethics debate, with many companies publicly accused of engaging in immoral or unethical tax practices. Corporate taxation started to be discussed under the framework of business ethics mainly to guide companies in their ethical assessment in those areas where the law is incomplete, unclear, or open to different interpretations. Based on a systematic literature review, this chapter scrutinizes the ethical issues associated with corporate taxation, and elucidates the potential of normative ethical theories for ethical decision-making with regard to corporate taxation. This means adopting a normative approach to reach a justifiable decision about what tax behaviour is morally right or wrong and exploring whether there are good philosophical reasons for describing aggressive tax avoidance as morally undesirable and, consequently, for socially ostracizing this conduct.

# 2.

# ETHICS OF CORPORATE TAXATION: A SYSTEMATIC LITERATURE REVIEW[4]

## 2.1 Introduction

Corporate taxation has recently attracted considerable attention from a wide circle of stakeholders who have increasingly scrutinized companies for their tax behaviour. International institutions, such as the OECD and the EU, are developing initiatives to reform tax laws in order to tackle tax avoidance and aggressive tax planning (e.g., the OECD/G20 BEPS Project) while prominent non-governmental organisations (e.g., ActionAid, ChristianAid, Oxfam) and advocacy groups (e.g., the Tax Justice Network) have launched several campaigns to raise public awareness about the impact of corporate tax planning on society (see, for example, Dallyn 2017). Furthermore, the media coverage of corporate taxation has increased significantly over recent years (Chen et al. 2019; Kanagaretnam et al. 2018). Additionally, consumers have begun to use their purchasing power to punish tax avoiders (Hardeck and Hertl 2014; Hardeck et al. 2019) and investors are interpreting this growing attention to corporate taxation as a source of increased risk and are calling for a more responsible approach to tax planning (UN PRI 2015, 2018).

As is evident from the above-mentioned references, and as noted also by Radcliffe et al. (2018), recent years have been characterised by an institutional change in the "moral boundaries" of corporate taxation as stakeholders have begun to emphasise the ethical aspects of certain tax strategies, above and beyond compliance with the law. The issue of corporate taxation has been "transformed from a narrow technical discussion for specialists to one that is overtly ethical and social" (Sustainability 2006, p. 12). Indeed, it is now well established that corporate taxation falls within the business ethics debate (IBE 2013). Of particular concern is the discretion that multinational enterprises (MNEs) enjoy

[4] This chapter has been published as Scarpa F., Signori S. (2020) Ethics of Corporate Taxation: A Systematic Literature Review. In J. Rendtorff (ed.) *Handbook of Business Legitimacy* (pp. 489-485). Cham, UK, Springer International Publishing.

as to how to arrange their tax affairs and how much tax they pay within the legal framework. One of the greatest challenges is the inadequacy of the international tax framework which offers companies several opportunities for tax planning. Moreover, the need to stay competitive and attract investments has led both developed and developing countries to engage in a harmful tax competition known as “a race to the bottom” (Killian 2006, p. 1082). Hence there is increasing concern that MNEs are such powerful actors in the global tax system that they can shape and modify tax rules according to their own interests (Carminati 2019, p. 6).

As a consequence of this flourishing interest, in the last decade a considerable amount of literature has begun to investigate corporate tax practices through the prism of business ethics in order to address the corporate ethical responsibilities associated with taxation.

The purpose of this chapter is to systematically review literature dealing with the ethical aspects of corporate taxation in order to contribute towards a better understanding of the evolution, the scope and the state of the art of this academic debate. In particular, the chapter offers critical insights into the philosophical approaches and the normative arguments advanced in favour of and against the morality of certain corporate tax practices (i.e., tax avoidance and tax evasion). Additionally, drawing on the results of the literature review, this work aims to offer paths and suggestions for future research.

The chapter is organised as follows: the first section presents the methodology (i.e., the systematic literature review) and describes how data (i.e., papers) were collected, coded and analysed. The following section offers a descriptive analysis of the literature, discussing the distribution of publications across time and journals, as well as introducing the main issues addressed by the papers (i.e., tax avoidance vs. tax evasion). Subsequently, the chapter discusses three main topics that have emerged from the literature: the ethics of tax evasion, the ethics of tax avoidance and the ethics of tax practitioners. Finally, the last section provides a conclusion and suggestions for future research.

## 2.2 Collection and analysis of relevant publications

A systematic literature review is adopted to ensure that all relevant publications are collected and analysed through a replicable, transparent, accessible and scientific process (Tranfield et al. 2003). The systematic literature review is one of the most widely adopted methods “for studying a corpus of scholarly literature, to develop insights, critical reflections, future research paths and research questions” (Massaro et al. 2016, p. 767). Relevant publications were collected using some major electronic management databases (i.e., Business Source Premier via EBSCOhost, ProQuest, Scopus and Web of Science) and searching articles that in their titles, abstracts and/or keywords included the words “*ethic* or “*moral*”and at least one of the following common corporate tax-related terms: “corporate tax”, “corporate taxation”, “tax haven”, “tax planning”, “tax avoidance”, “tax evasion”, “tax aggressiveness” and “transfer pricing”.

All publications were reviewed to select only those papers which discuss a corporate tax-related issue from an ethical perspective. Moreover, additional articles were found by examining all the reference lists of resources identified through the database searches. Overall, the above-described selection process resulted in a total of 66 papers (please, note that publications included in the sample are marked with an asterisk (*) in the references). These publications were analysed to identify some basic features (e.g., name of the journal, year of publication and research question), the topic addressed, definitions of tax terms, the underlying philosophical approach/es and the normative arguments presented in favour of and against the morality of the corporate tax minimization activity that is addressed by the paper.

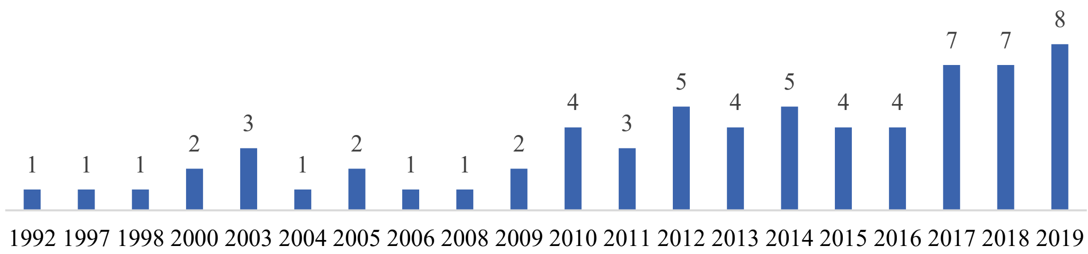
## 2.3 Descriptive analysis

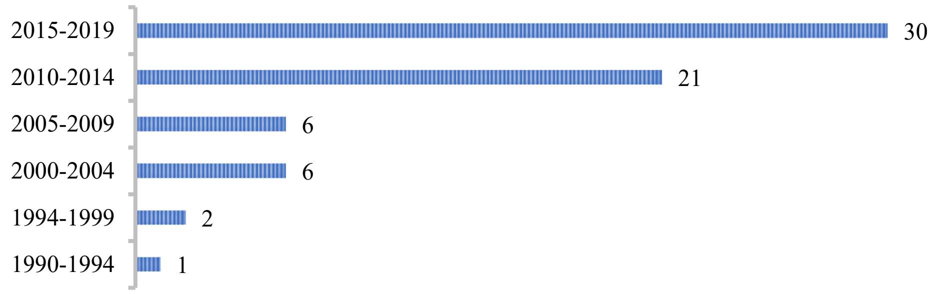
The starting point of this literature review is the discussion of some basic features of the publications under examination in order to gain a general understanding of the evolution of academic debate on the ethics of corporate taxation. The descriptive analysis focuses on the following aspects: a) distribution of the publications over time; b) distribution of the articles across journals; c) introduction to the main topics discussed in the literature.

### *2.3.1 Distribution of publications over time*

Figure 2.1 reveals that the distribution of publications over the years can be divided into four phases: 1) the irrelevance phase, which lasted until the 2000s; 2) the emergence phase, lasting from 2000 to 2009; 3) the initial growth phase, which lasted from 2010 to 2015; 4) the consolidation phase, which started in 2017.

**Figure 2.1** Distribution of publications across the years




Before the year 2000, only 3 papers were published, indicating that corporate taxation was not considered part of the business ethics debate. During the first decade of the 2000s, the topic started to enter the academic debate even if the number of publications began to grow only in 2010. The period of initial growth (2010-2015) seems to have been driven by the financial crisis (2007-2008) that exacerbated the effects of tax minimization strategies on society. Additionally, the growth may have been fueled by the NGOs' campaigns on corporate taxation (e.g., ActionAid, Christian Aid, and Oxfam). Finally, the topic has gained greater relevance over the last 3 years (2017-2019), when 33% of the publications included in the sample were published. This phase may have been driven by the intense political and public debate which followed the publication in 2015 of the final package of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project, which provided governments with several solutions for closing the gaps in existing international rules that allow corporate profits to disappear or be artificially shifted to low/no tax jurisdictions.

### *2.3.2 Distribution of publications across journals*

Table 2.1 lists the journals included in the study and the number of articles included from each journal. This analysis reveals that the 66 publications examined were published in

30 different outlets, while 5 of them were published as book chapters and one was a working paper (Bennett and Murphy 2017). As Table 2.1 highlights, the *Journal of Business Ethics* is by far the main outlet for articles on the ethics of corporate taxation, with 22 articles (33.33%) published. Second on the list is the *Accounting, Auditing & Accountability Journal* that published 5 articles (7.58%). Interestingly, they are the only journals to have published more than 2 articles. As a second step, the journals were grouped by their research area. While most articles (43.94%) were published in business and society journals, articles dealing with the ethics of corporate taxation also appeared in social accounting (21.21%), law (15.15%), general management and international business (9.09%), and psychology (3.03%) journals.

**Table 2.1** Journals included in the systematic literature review

| **Journal** | **Count** |
|---|---|
| Journal of Business Ethics | 22 |
| Accounting Auditing & Accountability Journal | 5 |
| Accounting Forum | 2 |
| Accounting, Organisations and Society | 2 |
| Business Ethics: a European Review | 2 |
| Critical Perspectives on Accounting | 2 |
| Journal of Accounting, Ethics and Public Policy | 2 |
| Accounting Horizons | 1 |
| Accounting and the Public Interest | 1 |
| Accounting Review | 1 |
| American Business Law Journal | 1 |
| Boston University Law Review | 1 |
| Business & Professional Ethics Journal | 1 |
| Business and Human Rights Journal | 1 |
| Business and Society Review | 1 |
| Creighton Law Review | 1 |
| Development | 1 |
| Ethics and International Affairs | 1 |
| International Business Review | 1 |
| Journal of Business and Management | 1 |

| | |
|---|---|
| Journal of Economic Behavior and Organisation | 1 |
| Journal of Economic Psychology | 1 |
| Loyola University Chicago Law Journal | 1 |
| Manchester Journal of International Economic Law | 1 |
| Nordic Tax Journal | 1 |
| Scandinavian Journal of Management | 1 |
| Social and Legal Studies | 1 |
| Society and Business Review | 1 |
| University of Michigan Law School Scholarship Repository | 1 |
| Virginia Tax Review | 1 |
| Working paper | 1 |
| Book chapters | 5 |
| *Total* | *66* |

### *2.3.3 Main topics discussed in the literature*

Up to now, previous business ethics literature has investigated three main topics related to corporate taxation, namely the ethics of tax evasion, the ethics of tax avoidance and the ethics of tax practitioners.

Prior to any ethical analysis, much of the literature attempts to draw a distinction between tax avoidance and tax evasion. The most common way to distinguish these tax practices is that between legal and illegal activities (e.g., Christians 2014). On the one hand, the term *tax evasion* is used for tax minimization activities based on illicit, criminal, dishonest, deceptive and fraudulent actions taken outside the legal framework (Payne and Raiborn 2018, p. 470; Lenz 2020; Prebble and Prebble 2012, p. 702; Stainer et al. 1997, p. 214). On the other hand, the term *tax avoidance* is used to refer to activities aimed at reducing tax payments by legal means (Kirchler et al. 2003, p. 3; Prebble and Prebble 2012, p. 700; Dowling 2014, p. 174).

As outlined by Barker (2009, p. 242), the legal consequences are also different: while tax evasion is punished with imprisonment, judicial remedies for tax avoidance may be limited to civil penalties, the nullification of the tax position and the payment of back taxes with interest.

Additionally, there are no sanctions against some legal tax minimization strategies (e.g., corporate headquarters located in a low-tax country) which may only negatively affect the relationship with stakeholders. With respect to tax avoidance, some scholars have distinguished among different forms that are associated with various ethical issues. First of all, scholars use the term “appropriate” (Payne and Raiborn 2018, p. 470) or “State-induced” (De Colle and Bennett 2014) tax avoidance to refer to the process of reducing the amount of tax based on enumerated provisions in the legislation, usually encouraged by the State to achieve socially desirable ends. Secondly, scholars label as “legitimate” (Barker 2009), “strategic” (De Colle and Bennett 2014) or “responsible” (Lenz 2020) those tax avoidance activities aimed at reducing corporate tax liabilities as part of a commercially sound business strategy and that comply with both the *letter* and the *spirit* of the legislation.

Conversely, scholars use the term “unacceptable” (Demirbag et al. 2013, p. 101), “impermissible” (Barker 2009), “aggressive” (Lenz 2020; Payne and Raiborn 2018) or “toxic” (De Colle and Bennett 2014) to refer to tax avoidance schemes that are designed predominantly or exclusively with the intention of reducing tax and which are based on a literal interpretation of the law that places little weight on the spirit of the legislation, i.e., “the legislative policy goals that inform tax law and the balance of competing social norms expressed in the tax code” (Ostas 2020, p. 86). This third form of tax avoidance raises some questions about its morality. The importance of distinguishing between tax avoidance and tax evasion is corroborated by some empirical studies revealing that taxpayers stress the difference between legal (i.e., tax avoidance) and illegal (i.e., tax evasion) when they judge the morality of tax minimization strategies (Kirchler et al. 2003; Blaufus et al. 2019).

Although there are some contrary positions (West 2018; Prebble and Prebble 2012), this chapter follows the prevailing view that considers tax avoidance and tax evasion as two separate ethical issues, stressing the legal differences between them.

## 2.4 Discussion of corporate tax-related ethical issues

As above-mentioned, business ethics literature has addressed three main topics related to corporate taxation, namely the ethics of tax evasion, the ethics of tax avoidance and the ethics of tax practitioners. In the sections that follow, the normative arguments that have been advanced in favour of and against tax evasion and tax avoidance will be investigated. Finally, the ethics of tax practitioners will be discussed.

### *2.4.1 The ethics of tax evasion*

There is a relatively small body of literature that deals with the ethics of corporate tax evasion, much of the literature on tax evasion having focused, in fact, on individual taxpayers (e.g., Bagus et al. 2011). Most scholars take for granted that tax evasion is "profoundly unethical" (Bagus et al. 2011, p. 376), since it is illegal and it "entails deception and concealment" (Payne and Raiborn 2018, p. 470). As argued by Stainer et al. (1997, p. 214) "by definition, evasion is illegal and hence unethical", so that "few would dispute that … tax evasion is immoral" (Prebble and Prebble 2010, p. 715).

As noted by Young (2019), that illegal implies unethical is a typical assertion in the wider business ethics literature. For instance, legal responsibilities occupy a position close to the base of Carroll's pyramids of corporate social responsibilities (1991), while according to Friedman's (1970) popular view on corporate social responsibilities, firms' profit maximization should be limited to what the law permits.

In his interesting review of the literature, McGee (2006) notes that three major views on the ethics of tax evasion have evolved over the last 500 years: i) tax evasion is *always unethical* because there is a duty to God, to community or to society to pay taxes; ii) tax evasion is *always ethical* because the government always expropriates peoples' wealth; iii) tax evasion is *sometimes unethical*, since there are some ethical obligations to support the government of the country where you live but that duty is less than absolute.

What emerges from McGee's (2006) review is the importance of exercising caution when interpreting the claim that companies always have an ethical obligation to pay taxes. Indeed, over the last 500 years, some theologians and philosophers have argued that tax evasion may not be unethical in cases where the government is an evil regime, where it engages in human rights abuse or in unjust wars, where tax rates are too high, or where the tax funds are wasted or wind up in the pockets of corrupt politicians or their friends (McGee 2012).

However, only few scholars argue the position that there is an ethical duty to obey tax law, so that tax evasion would be an immoral action. Ostas (2020) refers to Socrates' arguments (i.e., consent, reciprocity, fairness and utility) to conclude that the ethical duty

to pay taxes can be derived from the "general *prima facie* ethical obligation to obey reasonably just laws enacted by reasonably just societies". According to McGee (2012) it cannot be automatically concluded that individuals representing a corporation need to pay only corporate taxes that are considered to be just. Indeed, McGee (2006, p. 31) observes that it is unethical for managers or tax practitioners to help a corporation evade taxes, even if the tax itself is unjust, "because they have a fiduciary duty to the corporation's owners not to do anything that will reduce the stock price", given that evading taxes could result in fines and/or in the confiscation of corporate assets. A different approach is adopted by Avy Yonah (2014), who contends that companies have a duty to obey the law and pay their taxes under any view of the corporation: i) under the *artificial entity* view, companies have an implicit bargain with the State that expects companies to pay their taxes to contribute to the ability of the State to fulfil its obligations to its citizens; ii) under the *real entity* view, the corporation should behave like an ordinary citizen and should try to comply with the tax law to the best of its ability; iii) under the *aggregate* view, corporations have an affirmative obligation to pay their taxes to enable the State to carry out those social functions that they are barred from pursuing.
Turning now to empirical research, a number of studies have investigated the determinants of tax evasion. Inspired by the seminal theoretical models developed by Allingham and Sandmo (1972) and Srinivasan (1973), the first empirical studies were based on strictly economic determinants and a rational explanation of tax evasion, according to which the amount of tax individuals choose to pay depends only on the expected benefits of not paying taxes, compared with the risk of being caught. However, as noted by Mickiewicz et al. (2019, p. 76) one of the main conclusions from these empirical studies is that tax evasion is much lower than can be explained by expected financial utility.

Hence, as emphasised by Alm and Torgler (2011, p. 635), the real puzzle of tax compliance behaviour is "to explain why people pay taxes" despite a relatively low likelihood of being caught. To explain this discrepancy, the concept of tax morale has been developed, i.e., a moral obligation to pay taxes and a "belief in contributing to society by paying taxes" (Torgler and Schneider 2009, p. 230).

So, scholars have started to acknowledge that it is not possible to understand tax compliance decisions fully without considering that individuals are often motivated by factors founded on "aspects of morality, social norms, altruism, fairness, or the like, factors that we broadly – and somewhat inaccurately – classify as ‘‘ethics’’" (Alm and Torgler 2011, p. 636). However, only a few studies on tax morale are based on the business context. For instance, a series of experimental studies among self-employed business owners conducted by Maciejovsky et al. (2012) reveals that the relative effectiveness of economic determinants of tax ethics (such as audit probabilities and fines) is moderated by feelings and emotions. More recently, Mickiewicz et al. (2019, p. 89) found that the tax morale of business owners/managers is affected by the institutional system where they are embedded through three institutional mechanisms: "the normative – trust in the government and in the tax system; the cognitive – identification with the wider polity; and the regulatory – perceptions of deterrence".

### *2.4.2 The ethics of tax avoidance*

A large and growing body of literature has investigated the morality of (aggressive) tax avoidance. As discussed above, tax avoidance is a legal activity. First, there is the need to discuss why companies should be morally castigated for engaging in activities that, by definition, fall within legal limits (Fisher 2014, p. 341) or, in other terms, why we need ethics to tackle tax avoidance.

This issue has been addressed by several scholars who hold the view that tax avoidance cannot be automatically considered a moral activity only because it is legal. For instance, Prebble and Prebble (2012, p. 744) note that "drawing moral conclusions from legal observations constitutes logical confusions". In the same vein, Hansen et al. (1992, p. 684) state that "legal and ethical are not always equivalent" and, thus, as pointed out by Payne and Raiborn (2018, p. 475) "abiding by legal mandates will not necessarily or always produce ethical behaviour".

As a second step, the role of the law in taxation must be clarified. As argued by Honorè (1995, p. 5), the duty to pay tax is "in principle a moral obligation … to make a contribution to the expenses of meeting collective needs". Yet this moral obligation is incomplete because taxpayers cannot settle it for themselves: the role of the tax system is to translate and crystallize this moral obligation into legal norms to preclude arbitrariness and to create reciprocal trust that all taxpayers will pay their share (Gribnau 2017, p. 18). Nevertheless, once the legislature has created this legal obligation and written it in legal texts, regulations "will inevitably appear to be imperfect, ambiguous, lagging behind societal and economic developments and so on" (Gribnau 2015, p. 239). The tax regulatory framework is a matter of loopholes, inconsistencies and imperfect laws that can be complied with in different ways, particularly in the global arena where rules are written by different, and often conflicting, sovereigns. In brief, as summarized by Gribnau (2017, p. 44) "to demand perfect legislation is to demand the impossible". Hence, the use and the interpretation of legal rules demand arbitrariness and personal evaluations (Aharony and Geva 2003) and it is here that ethical responsibilities arise. In other words, ethics in corporate taxation "may somehow involve abstaining from permitted legal ways and means to reduce tax and voluntarily going 'beyond the law' to apply some higher (undefined) ethical standards" (Demirbag et al. 2013, p. 103).

The view that companies are expected to go above and beyond compliance with tax laws is supported by anecdotal and empirical evidence revealing that MNEs which legally fail to pay their fair share of tax are increasingly considered to be unfair, immoral and/or outrageous (West 2018, p. 1143; DeZoort et al. 2018; see also IBE's annual surveys of the attitudes of the British public to business ethics available at https://www.ibe.org.uk/). In conclusion, tax avoidance is widely perceived at least as a morally doubtful practice, although it is legal. As a consequence, a considerable amount of literature has investigated the morality of tax avoidance using a variety of philosophical approaches, focusing on tax avoidance in general, or on specific tax avoidance strategies, like transfer pricing (Hansen et al. 1992; McGee 2010; McMahon et al. 2013; Mehafdi 2000; Jeffers et al. 2008), tax inversion, i.e., the relocation of a corporate headquarters to a different country with lower taxes, while the majority of the company's operations remain in the higher-tax country of origin (Godar et al. 2005) or the use of tax havens (Preuss 2012a; 2012b). The following sections provide a review of the moral arguments which scholars have advanced in favour of and against the morality of corporate tax avoidance.

##### *2.4.2.1 Moral arguments defending tax avoidance*

Although most scholars question the morality of tax avoidance, a few lines of reasoning have been advanced to morally justify companies engaging in tax avoidance activities. What follows is a brief account of these positions, as summarized in Table 2.2.

**Table 2.2** Moral arguments in favour of tax avoidance

| **Philosophical approach** | **Main arguments** | **Source** |
|---|---|---|
| Tax avoidance is not a moral issue | There cannot be any moral constraints on exploiting legal opportunities or moral duties to pay taxes greater than actual legal liability | Windsor (2018) |
| Liberalism | Tax avoidance is a justified form of "self-defence" from a violation of natural rights | Machan (2010); McGee (2010) |
| Libertarian theory | Tax avoidance is an expression of the liberty to be free from an overreaching government, the freedom of property and the freedom to contract | Barker (2009) |
| The inefficiency of government | Companies are morally justified to legally minimize their tax burden since they are able to use tax savings to increase social welfare more efficiently than government | Davis et al. (2016); McGee (2010) |
| Managerial fiduciary duty | Managers have a duty to maximize shareholders' wealth by all legal means, including the minimization of the tax burden | Dowling (2014); Fallan and Fallan (2019) |

a) Tax avoidance is a legal and not a moral issue

A first position defends the legitimacy of tax avoidance considering its legal nature: since tax avoidance is legal it cannot be immoral.

From this perspective, the payment of tax is regarded as a mandatory cost imposed by government and the only corporate responsibility is to minimize this cost within the rules of the law (Friedman 1970): there cannot be any moral constraints on exploiting legal opportunities or on moral duties "to pay taxes greater than actual legal liability" (Windsor 2018, p. 156) because "even an extreme moralist could not expect the taxpayer to opt for the most costly election" (Hansen et al. 1992, p. 683).

Thus, this line of reasoning contends that if some tax activities are not considered acceptable it is the governments' task to change the legislation to make them illegal (Stainer et al. 1997, p. 214). To corroborate this position, the following tax court decisions are often cited (see Barker 2012; Prebble and Prebble 2012, p. 714-715):

> "Every man is entitled if he can to order his affairs so as that the tax attaching under the appropriate Acts is less than it otherwise would be" (Inland Revenue Commissioners v. Duke of Westminster, 1936).
> "Over and over again courts have said that there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant" (Commissioner v. Newman, 1947).

b) Liberalism

According to Locke, generally regarded as the father of liberalism, all individuals have "natural rights" (i.e., the right to life, liberty, and property) which are granted at birth. Building on Locke's doctrine, Machan (2010) considers tax avoidance as a justified form of "self-defence" from a violation of natural rights since taxation "coerces one to hand over a goodly part of one's earnings to people one has not freely chosen to receive them" (p. 75). In the same vein, McGee (2010, p. 34) draws on John Locke's concept of natural property rights to claim that taxation is an unjustified governmental interference in the natural, free-market ordering of things.

c) Libertarian theory

Libertarian thinkers, such as Nozick (1974), are not only in favour of tax avoidance, but they even call for no taxation since it is seen as an interference with personal liberty and property (Gribnau and Jallay 2017, p. 73). Nozick's position is expressed in his famous statement: "taxation of earning from labor is on a par with forced labor" (Nozick 1974, p. 169). Thus, any efforts to restrict tax avoidance would be similarly unjust (West 2017, p.1148): individuals have the right to avoid tax as an expression of "the liberty of the subject to be free from an overreaching government, the freedom of property and the freedom to contract" (Barker 2009, p. 234).

d) The inefficiency of government

This line of reasoning is based on the concept of efficiency in the redistribution of tasks among public and private actors. Scholars suggest that it is more socially acceptable to keep as many assets as legally possible in the private sector, when transferring them to an inefficient government results in a misallocation of resources (Stainer et al. 1997, p. 215). Thus, companies may be morally justified to legally minimize their tax burden if they are able to use tax savings to increase social welfare in other ways, such as through investment in infrastructure, research and development, and job creation (Davis et al. 2016, p. 49). McGee (2010, p. 35) even ventures to say that "society is actually helped if corporations have a policy of minimizing taxes".

e) The managerial fiduciary duty

Consistent with agency theory, managers feel they have a duty to maximize shareholders' wealth by all legal means. This fiduciary duty implies that managers have to engage in all legal activities to minimize the corporate tax burden (Fallan and Fallan 2019, p. 2). So, if managers pay more taxes than the legal minimum, they are acting unethically because they are transferring to the governments assets and wealth that belong to shareholders (McGee 2010, p. 32) or other stakeholders.

#### *2.4.2.2 Moral arguments against tax avoidance*

As previously stated, much literature dealing with the ethics of tax avoidance has reached the conclusion that there are "good philosophical reasons … to socially ostracize this type of behaviour" (Lenz 2020). As summarized in Table 2.3, various philosophical approaches have been used to support the immorality of tax avoidance, including *consequentialist* theories (which address right or wrong by emphasising the outcomes of an action), *deontological* theories (which stress that what makes a choice right is its conformity with a moral norm) and *virtue ethics* (which emphasises actors' virtues and moral character).

The following section discusses how these ethical theories have been used to reach the conclusion that corporate tax avoidance is immoral.

a) Utilitarianism

Utilitarianism, a version of consequentialism, is linked particularly to the British philosophers Jeremy Bentham (1789/1996) and John Stuart Mill (1863/1998). According to utilitarianism, an action is right or wrong depending on its social consequences: an agent must act in ways that result in the greatest amount of good (variously described as happiness, pleasure, utility, or individual welfare), or the least amount of harm, for the greatest number of people affected by the action.

**Table 2.3** Moral arguments against tax avoidance

| Philosophical approach | Main arguments | Source |
|---|---|---|
| Utilitarianism | Negative social outcomes of tax avoidance outweigh the positive consequences | Hansen et al. (1992), Mehafdi (2000), Godar et al. (2005), Preuss (2012a), Fisher (2014), de Colle and Bennet (2014), Raiborn et al. (2015), Payne and Raiborn (2018) |
| Ethics of Rights | Tax avoidance violates basic human rights | Scheffer (2013), Darcy (2017) |
| Kantianism | Tax avoidance cannot be universalized without contradiction and without violating the principle of human dignity. | Godar et al. (2005), Prebble and Prebble (2010), Preuss (2012a), Raiborn et al. (2015), Lenz (2020) |
| Ethics of Justice | Tax avoidance violates Rawls' principles for a just society | Raiborn et al. (2015), Gribnau (2017), Payne and Raiborn (2018), Fischer and Friedman (2019) |
| Social Contract Theory | Tax avoidance violates the implicit social contract between business and society | Christensen and Murphy (2004), Payne and Raiborn (2018) |
| Virtue Ethics | Tax avoidance runs contrary to the development of virtues and moral character | Preuss (2012a), West (2018) |

Although no utilitarian analysis of tax avoidance has provided a comprehensive quantitative measurement of its consequences, there is a consensus among researchers that tax avoidance generates negative outcomes on a large number of stakeholders that are likely to outweigh the short-term financial benefits (De Colle and Bennett 2004; Godar et al. 2005; Preuss 2012a; Payne and Raiborn 2015; Raiborn et al. 2015).

On one hand, benefits associated with tax avoidance are typically attributed to shareholders via increases in share prices and dividends and to their tax consultants via higher fees. Additionally, tax savings might potentially be used for the benefit of other stakeholders, like employees (i.e., higher wages), consumers (i.e., lower prices) and the broader community (i.e., more CSR activities).

On the other hand, negative consequences have been associated with governments (e.g., lack of revenue to fund public services, higher administrative costs to ensure tax compliance, threat to the tax system's integrity, harmful tax competition between States), management (e.g., reputational risks) and shareholders (e.g., reputational harm, risk that the management engages in other subversive and opportunistic activities, costs for tax penalties and legal experts). Additionally, tax avoidance may inflict harm on domestically-based competitors, who cannot engage in cross-border tax avoidance strategies, on members of the general society, who may suffer from higher social inequalities, a greater tax burden and/or a lower level of social welfare, as well as on developing countries that rely on MNEs' tax payments for their economic and social development (Carminati 2019, p. 5; de Colle and Bennett 2014; Fisher 2014, p. 354-359). Finally, some scholars emphasise the negative outcomes of specific tax avoidance strategies: the use of tax havens may result in profound distortions of global foreign direct investments (FDI) to the degree that investment decisions are taken on the basis of tax and regulatory concessions (Preuss 2012a); a corporate inversion (Godar et al. 2005) might cause psychological harm to employees (e.g., fear of job loss), the current home government (e.g., feeling of betrayal) and the prospective home government (e.g., political stress within the new host); similarly, transfer pricing may generate psychologically negative outcomes at the level of the host countries, such as feelings of trust and hospitality abuse, local workforce exploitation, as well as a reinforcement of the politics of greed (Mehafdi 2000).

Although many scholars have contended that the negative outcomes of tax avoidance seem to prevail over the positive consequences, other scholars consider that these analyses are unsatisfactory and inconclusive because they fail to provide a quantitative measurement (Lenz 2020; West 2018).

b) Ethics of rights

To date, only a limited number of scholars have framed tax avoidance as a critical issue from the human rights' perspective (Scheffer 2013; Darcy 2017). For this reason, Darcy (2017, p. 2) refers to tax avoidance as the "elephant in the room for business and human rights". Central to this line of reasoning is the need for governments to be financed both by individual and corporate taxes in order to facilitate and protect basic citizens' human rights (for instance, through education programs and public health care). Indeed, taxation has “a redistributive function, aimed at reducing the unequal distribution of income and wealth that results from the normal operation of a market-based economy” (Avi Yonah 2006, p. 3).

Various leading initiatives in the development of human rights have acknowledged that tax avoidance activities “have considerable negative impacts on the enjoyment of human rights” (International Bar Association 2013, p. 93). Darcy (2017) suggests addressing the issue of corporate taxation using the three pillars of the UN Guiding Principle on Human Rights: i) the first pillar – that is the State duty to protect human rights - requires States not to facilitate corporate tax avoidance; ii) the second pillar – that is the corporate responsibility to respect human rights - requires companies not to engage in abusive tax avoidance and make a policy commitment on taxation; iii) the third pillar - the need to ensure adequate remedies - requires greater engagement by the international and human rights bodies with corporate tax avoidance.

In contrast, Scheffer (2013, p. 366) suggests adding an eleventh principle to the UN Global Compact identified as ‘Fair Taxation’: “Businesses should undertake measures to promote fair taxation of their revenues, including non-resort to tax avoidance schemes and prohibition of any tax evasion practices”.

Furthermore, in 2015 over 150 organisations signed the Lima Declaration on Tax Justice and Human Rights[5] to call upon governments, companies, international institutions, tax lawyers, judges and the human rights community at large to actively engage in the development of an international tax system that favours the full realisation of human rights.

c) Kantianism

The most famous and prominent deontological approach is the ethics of the German philosopher Immanuel Kant. He developed a theoretical framework, called the ‘Categorical Imperative’, i.e., “an objective, rationally necessary and unconditional principle” (Johnson and Cureton 2004) to derive moral duties and rules for addressing all ethical issues. The main message of the Categorical Imperative is to act only according to that maxim (principle or rule) by which you can at the same time will that it should become a universal law (Kant 1786/2012 p.421-429; 1797/2013, p.231)

[5] Available at http://www.cesr.org/sites/default/files/Lima_Declaration_Tax_Justice_Human_Rights.pdf.

To determine whether tax avoidance is ethical from a Kantian perspective, the first question would be to ask if we would want everybody to engage in tax avoidance in all circumstances, without any contradiction in conception or will (*universal acceptability* and *consistency* principle). Secondly, there is the need to investigate whether by making use of tax avoidance the basic human dignity of people would be fully respected (*human dignity* principle).

The most comprehensive application of Kant's Categorical Imperative to tax avoidance is offered by Lenz (2020). He hypothesizes that managers and tax consultants pursue a twofold purpose: they aim to interpret legal norms aggressively to minimize taxes and, simultaneously, they wish for a stable, predictable and just legal system, where judges, civil servants and adverse parties interpret legal rules considering the letter and the spirit of the law. If these premises are accepted, Lenz comes to the conclusion that conceiving tax avoidance as a universalized maxim would lead to a contradiction of will: it is not possible to wish at the same time that all persons and corporations interpret the law up to the boundary of what is probably legally permissible to minimize taxes and that the legal system will remain fair and stable.

Furthermore, other scholars point out more logical contradictions in conceiving tax avoidance as a universal law: if everyone pursues tax avoidance schemes, the effects would be a rise in tax rates or the introduction of new taxes and, then, that no one would achieve any gains (Prebble and Prebble 2012, p. 725-726; Bennett and Murphy 2017, p. 7); tax avoidance strategies can be effective only if they remain unnoticed (Aharony and Geva 2003, p. 388); some economic actors (like SMEs and individual taxpayers) do not have the same opportunities or resources as multinational corporations to engage in tax avoidance activities (Preuss 2012b, p, 3); with specific regard to corporate inversion, the maxim whereby all companies and individuals may change their citizenship in order to pay lower taxes would require "that no citizen be a citizen" (Godar et al. 2005, p. 3).

Finally, regarding the principle of human dignity (i.e., whether tax avoidance leads to treating humanity as an end), scholars maintain that tax avoidance does not result in a respectful treatment of human beings because general society would be damaged by the reduced ability of governments to provide public goods and services (Preuss 2012a, p.116; Raiborn et al. 2015, p. 85).

In summary, much literature provides different arguments to conclude that tax avoidance is immoral under the Kantian philosophical approach.

d) Ethics of justice

The frequent phrasing of the issue of tax avoidance in terms of (un)fairness suggests that modern theories of justice may contribute to the debate (West 2017).

One of the most popular theories founded on the concept of justice and fairness was developed by John Rawls (1971) who established a deontological framework based on three criteria which guide decision makers towards solving the ethical issues behind a "veil of ignorance" (i.e., without any knowledge of their attributes or roles in society): i) the *principle of equal liberty*: each person is to have an equal right to the most extensive basic liberties compatible with similar liberties for all; ii) *the difference principle*: social and economic inequalities are to be arranged so that they are to the benefit of the least advantaged; iii) the *principle of fair equality of opportunity*: those most disadvantaged in society should have the best opportunities under conditions of fair equality of opportunity.

Payne and Raiborn (2018, p. 476) contend that tax avoidance might violate all Rawls' principles, because the "least advantaged" in society (i.e., individual taxpayers and SMEs) would not have the same opportunity as MNEs to engage in tax avoidance activities and might suffer from the lack of public assistance due to the reduction in tax revenues. Ostas and Hilling (2016, pp. 64-65) also claim that tax avoidance strategies violate Rawls' notion of justice because they "tend to erode the policy goals that support tax systems, namely fairness, simplicity, and certainty".

According to Rawls, a just society is based on reciprocity, cooperation and mutual respect among citizens. In order to establish obligations for individuals, he introduces the principle of fairness that asserts that members of society who have voluntarily accepted the benefits provided by a society and its institutions are bound by a duty of "fair play" to do their part. In other terms, benefiting from society leads to an obligation to reciprocate.

When it comes to corporate tax practices, Gribnau (2017, p. 47) contends that the duty of fair play requires companies "more than simply to follow the rules, in the sense of strictly keeping to the letter of the law…. and to exercise a certain restraint in taking advantage of them". Business and community are parts of a mutually beneficial cooperative scheme: companies use public goods and services (e.g., good infrastructure, a just legal system and a well-educated workforce) while local communities can benefit from corporations' economic and social contributions. Then, tax avoidance runs contrary to the principle of fairness, resulting in companies acting as free riders.

Finally, a different approach is adopted by Fischer and Friedman (2019) who link the Rawlsian principles to Abrahamic Justice, mainly based on the dichotomy between *tzedakah* (righteousness) and *mishpat* (judgement). By doing so, they reach the conclusion that, despite the fiduciary duty towards shareholders, managers have a moral responsibility to pay a fair share of tax even if they can legally avoid doing so, and they may "operate under the assumption that shareholders aspire to a higher level of justice that is informed not just by legal compliance but also by standards of righteousness" (Fischer and Friedman 2019, p. 213).

e) Social contract theory

Some scholars have framed the issue of tax avoidance with reference to the social contract tradition (Donaldson and Dunfee 1994;1999), which maintains that responsibilities to society come from a sort of implicit social contract between business and society.

Christensen and Murphy (2004, p. 37) highlight that tax payments are "the lifeblood of the social contract" since they are vital to the development of society and its institutions. Hence, as noted by Payne and Raiborn (2018, p. 476), entering into the social contract, a business has "tacitly agreed to contribute its fair share to the tax base" and, then, to abide by both the spirit and the letter of tax law. From this perspective, tax avoidance is immoral since it breaches the social contract that binds every firm to the community in which it operates (De Colle and Bennet 2014, p. 66).

f) Virtue ethics

Virtue ethics is a major ethical theory that emphasises the development of virtues, i.e., "traits of character that constitute praiseworthy elements in a person's psychology" (Audi 2012, p. 273). The main message of virtue ethics is that a "virtuous person is a morally good, excellent or admirable person who acts and feels as she should" (Hursthouse and Pettigrove 2016).

West (2018) builds on virtue ethics to focus on the role of accountants, who are often involved in corporate tax avoidance activities. More in detail, West refers to MacIntyre's virtue ethics (2007) to reconceptualise and remove two factors (i.e., *pressure* and *rationale*) included in Cressey's (1953) fraud triangle (the third factor, i.e., opportunity, is not discussed). Firstly, the pressure factor (i.e., the motivation behind tax avoidance) is reconceptualised by stressing that a good accountant should prioritise the achievement of excellent accounting practices (e.g., the substance over form principle) over the motivation to pursue shareholder wealth. In a similar vein, an alternative rationale (i.e., the intellectual justifications to make fraud acceptable) for accounting choices is provided, emphasising the aim to contribute to the common good of individuals and collective flourishing, rather than enhancing shareholder wealth.

Furthermore, Preuss (2012a, p. 118) contends that corporate tax avoidance clashes with the emphasis of virtue ethics on situational learning and the development of moral character. This assumption moves from the premise that ethical behaviour should be uniform and related to every aspect of business (Christensen and Murphy 2004, p. 39; Stainer et al. 1997, p. 214). Nevertheless, a number of empirical studies document that some corporations engage in tax avoidance while also making public claims to being ethical and socially responsible (e.g., Col and Patel 2019; Davis et al. 2016; Fallan and Fallan 2019; Lanis and Richardson 2012; Preuss 2012b; Sikka 2010) revealing the resistance to framing corporate taxation as a moral issue within the business community. This moral disconnect cannot live up to the principles of virtue ethics since it is clearly "inconducive to the character development of organisational members" (Preuss 2012a, p. 119).

### *2.4.3 The ethics of tax practitioners*

Tax practitioners represent one of the major players in the tax arena since they help individual and corporate taxpayers to comply with their tax obligations, especially in a system characterised "by the combination of self-assessment systems, complex tax codes, increased penalties for non-compliance with tax legislation and higher levels of cross border activity" (Doyle et al. 2009, p. 177).

Therefore, to complete the discussion on ethics with regard to corporate tax behaviour, some brief considerations on the role of tax practitioners are now proposed.

The term "tax practitioner" is commonly used to cover a diverse range of business professionals (e.g., accountants, auditors, lawyers, barristers, tax experts working within industry) who "provide a broad range of tax services for their clients" (Marshall et al.

1998, p. 1268). Tax practitioners' services can be divided into two main categories: tax compliance, whereby practitioners prepare tax computations on behalf of taxpayers, and tax planning/avoidance advice, whereby tax practitioners attempt to devise ways of reducing the taxpayer's liability (Frecknall-Hughes and Moizer 2015).

Tax practitioners have duties to multiple actors (Frecknall-Hughes et al. 2017, p. 731). On one hand, they play an important role in the pursuit of the public interest and the common good, serving as intermediaries and government representatives in the tax system. On the other hand, they have a contractual obligation to serve their clients' financial interests (Shafer and Simmons 2008; Stuebs and Wilkinson 2010).

The last decades have witnessed the emergence of the "dark-side" of the tax profession (Addison and Mueller 2015) with a growing number of scandals uncovering the involvement of tax practitioners and accountancy firms in devising and mass marketing aggressive and ethically questionable tax schemes in pursuit of higher profits, bringing them into conflict with the State, the civil society and the public interest (Sikka and Hampton 2005; Sikka 2010; Addison and Mueller 2015, p. 330; Sikka 2008). These scandals have led to problematise tax as a central moral issue within the accounting profession and, then, to debate over the ethical behaviour of tax practitioners (Shafer and Simmons 2008; Carter et al. 2015). As noted by Apostol and Pop (2019), the tax consultancy has traditionally functioned as a commercial activity that generates profits by offering tax assistance to advance the interests of clients (i.e., *commercially driven* institutional logic). However, this logic has recently come under threat from an emerging *ethically oriented* institutional logic which transposes the numerous societal requests for tax practitioners to act in a way that considers the impact on the wider society rather than pursuing only the clients' interests.

Driven by the changing public expectations, a growing number of studies has investigated the ethics in tax practice, mainly exploring how tax practitioners actually balance the private and the public interests and debating how they "should make difficult discretionary decisions within the existing boundaries of what is arguably allowable" (Field 2017, p. 268).

The importance of ethics in tax practice was emphasised in the late 1980s by Finn et al. who identified ethical dilemmas involving tax issues as the most difficult problem for members of the American Institute of Certified Public Accountants (Finn et al. 1988, p. 607-609).

In terms of thinking about ‘ideal ethical tax practitioners’, scholars have stressed how important it is for tax practitioners to follow both the letter and the spirit of the legislation (Frecknall-Hughes et al. 2017; Ostas 2020). This requires that tax practitioners restrain from exploiting a literal interpretation of the law and that they employ “the full panoply of interpretative steps, including deference to legislative policy compromises, respect for judicial precedents, and most importantly, an application of traditionally embraced maxims of statutory construction” (Ostas 2020, p. 83).

A preliminary empirical study on the role of ethics in tax practice was conducted by Marshall et al. (1998) who reported considerable diversity among Australian tax practitioners’ ethical stances. The diversity in the styles of tax practitioners is supported by Sakurai and Braithwaite (2003), who reveal that taxpayers differentiate between three types of idealized tax practitioners: i) the creative, aggressive tax planning type; ii) the tax practitioner who engages in the cautious minimization of tax; iii) the low risk, no fuss practitioner who is honest and risk averse.

A significant finding of the literature is that most tax practitioners are reluctant to recognise the role of ethics in tax practice: empirical evidence suggests that they appear more concerned with reputational damage in relation to tax avoidance than any resulting ethical aspects (Doyle et al. 2009) and that they reason in a less principled manner when presented with ethical dilemmas in a tax context than in a social context (Doyle et al. 2014).

With regard to the underlying ethical framework that tax practitioners concerned with ethics use to formulate their decisions, literature provides mixed results. Cruz et al. (2000) suggest that when tax practitioners face clients’ pressure to adopt aggressive reporting positions, their ethical judgement is more affected by the moral equity and contractualism approaches than philosophies of utilitarianism, relativism and egoism. Differently, Shafer and Simmons (2011) provide evidence that relativism (i.e., judgement of what is traditionally or culturally acceptable) has the strongest influence on tax practitioners’ behavioural intentions in ethically charged situations. Additionally, the experiment of Frecknall-Hughes et al. (2017) indicates that although tax practitioners show a more marked deontological orientation, also consequentialist factors play some role in their reasoning about moral dilemmas in the tax domain.

The importance of ethics in tackling the sale of aggressive tax schemes is supported by a number of studies which have investigated the influence of personal ethical beliefs and the ethical environment on tax practitioners' decision-making. Results suggest that tax practitioners are less likely to facilitate aggressive tax avoidance schemes when they believe more strongly in the importance of business ethics (Shafer and Simmons 2008; Shafer et al. 2016) and when the ethical culture of their organisation is supportive of professional ethics (Shafer and Simmons 2011).

Additionally, some contextual factors can also play an important role in affecting tax practitioners' ethical judgement. Demirbag et al. (2013) reveal significant differences in tax practitioners' perceptions of corporate tax-related ethical issues between developed (proxied by the UK) and emerging (proxied by Turkey) countries while Fatemi et al. (2018) provide evidence that tax practitioners are significantly less likely to choose a tax-favorable outcome when in the communication of ethical standards the integrity standard (i.e., protecting the public interest) is presented before the client advocacy principle (i.e., pleasing the client).

Given the importance of ethical standards in constraining aggressive tax behaviour, scholars highlight the need for increased training in business ethics among tax practitioners to develop their moral character and promote a culture that gives greater consideration to the impact of tax decisions on wider society, rather than the tax a client can save (Stuebs and Wilkinson 2010; Shafer and Simmons 2008; Bennett and Murphy 2017; Krupka 2019).

More recent empirical studies seem to suggest a change in tax practitioners' consideration of the public interest. Bennett and Murphy's (2017) case study reveals that when stakeholders (i.e., the tax authority and the accounting profession regulatory authority) put tax practitioners who promoted aggressive tax schemes under pressure, they responded by issuing new guidance on responsible tax practices. Furthermore, Radcliffe et al. (2018) found that tax professionals have responded to changing public expectations in a way that promotes a new understanding of tax "not merely as a practice that has moral implications, but as a practice that is more deeply imbued with morality than has hitherto been recognized" (Radcliffe et al. 2018, p. 55).

## 2.5 Conclusions and suggestions for future research

The extended literature review presented in the previous pages reflects the lively academic debate that has been ongoing for the last few years about the ethics of corporate tax behaviour. Most scholars acknowledge that, even if corporate taxation is regulated by law, there is room to include this issue within the business ethics field to help businesses self-regulate their behaviour in those "grey areas" where the tax law is imperfect and to drive changes in legislation in order to bridge the gap between what is morally right and what is legally permitted. However, the presence of many different positions regarding the morality of tax minimization practices mirrors the richness but also the complexity of the question at hand. Indeed, a discussion about corporate taxation inevitably raises the complicated issue concerning the role of business in society and its interrelations with another important actor, that is the government. On one hand, governments are entrusted with the responsibility to act in the best interests of society. They receive consent from society (through votes) and should act to protect society's interests. On the other hand, companies are also entrusted more and more with the responsibility of advancing the interests of society, and there are no doubts that they have a "social responsibility" to carry out.

Furthermore, governments and businesses are mutually dependent on each other for pursuing their specific role. A strong government institution creates a solid foundation that allows businesses to operate and grow, while corporate income taxes are an important part of most governments' revenue and, so, a vital source for supporting public activities. These lines of reasoning explain why most moral arguments against tax avoidance find their legitimacy in the belief that companies should contribute to society by the payment of tax.

Again, the traditional legal theories on justification for taxation (i.e., "the benefit" principle and the "ability to pay" principle) start with the consideration that a fair share of tax should be given to the State. In particular, the "benefit" principle considers an amount of taxes proportionate to the amount of benefits obtained by the State to be "fair", while the "ability-to-pay" approach is based on the idea that the tax burden should be distributed among taxpayers in proportion to their faculty to bear the burden (e.g. Dodge 2004; Kaufman 1998). In both cases, companies must contribute to the governments' expenditure to allow them to fulfil their responsibilities towards citizens and to carry out their public function.

On the other hand, businesses can contribute to society by providing jobs, infrastructures, investments, etc. and, therefore, the less they pay in taxes, the greater their contribution will be to society. Some moral arguments in favour of tax avoidance are justified by the presence of other rights or interests in contrast to those of the government. In other words, if managers pay more taxes than the legal minimum, they are transferring to the governments wealth or possibilities that belong to other stakeholders (not only shareholders) and, more broadly, to society.

In this sense, companies are expected to replace the State in the exercise of some public functions. This 'subsidiary' or 'substitutive' approach may also be observed in all those initiatives in which tax authorities introduce tax benefits to achieve a social end. In these cases, companies exercise specific social functions traditionally attributed to the State and, for that reason, they have a reduction in what they have to pay to governments. A relevant example is companies' charitable foundations and the possibility to devote huge sums of money, deducted from taxation, to specific social causes. These initiatives often underline the idea that businesses can be more effective or efficient than the State in performing what are traditionally considered as public functions.

Discussing the delicate relationship between companies and governments and the role of power on its development falls beyond the scope of this chapter, but it is worth noticing that this aspect may influence the perception of the moral duty to pay tax in order to fund States' activities and functions.

Future studies could investigate this aspect further. In particular, attention could be paid to how different factors – such as companies' perception of their role in society; the role, the power and the efficacy of governments in pursuing the public good; and the power and efficacy that businesses perceive they have in relation to the State – influence how tax avoidance practices are perceived. Relevance could be given to the role of culture, types of legislation, different levels of economic development or other factors on shaping the perception of the morality of corporate tax strategies.

Furthermore, the growing interest demonstrated by academics, NGOs, media, etc., to tax avoidance shows how companies (in particular multinational companies) face increased scrutiny of their tax practices. The question of the amount of tax to be paid is far from being a merely ‘technical aspect’ to be managed through a cost-reduction approach, but rather it is increasingly becoming an ethical, political and strategical issue. Not only NGOs, but also investors and standard setters are asking for “greater transparency to evaluate companies’ exposure to potential earnings, governance, reputational and broader societal and macroeconomic risks” (UN PRI 2018, p. 5). In fact, the amount of corporate income tax, tax avoidance practices and where taxes are paid are issues that need to be managed with a specific policy, a governance and risk-assessment structure and communication system.

As noted in this literature review, many ethical theories lead to the conclusion that managers should have a responsibility to pay a fair share of tax, even if they can legally avoid doing so, because their ‘principals’, that is shareholders, could “aspire to a higher level of justice” (Fischer and Friedman 2019, p. 213) informed by values of righteousness and fairness. Furthermore, firm or brand reputation could be at risk due to the stakeholders’ perception (and expectations) of corporate tax duties. A company tax policy, discussed and issued at board (or general meeting) level, is fundamental.

Further studies could investigate the presence of tax policies and how these reflect (or could reflect) the set of corporate values and the business and social responsibility strategy. Also, how and where tax-related issues are discussed and how decisions are taken in companies could be an interesting field of investigation to understand better if tax-related matters are considered to be ethical and political issues or if they are still handled as technical/administrative aspects. Again, the role of different stakeholders and their pressure on companies could be an interesting point of view to investigate how policies and decisions are shaped, defined and changed over time. Research could explore how the company, through tax policy and governance systems, protects stakeholder trust and enhances the company’s license to operate.

Furthermore, as noted above in the literature review, there could be a moral justification for tax avoidance. Further studies could shed light on the links (if any) between tax policies and practices and the company’s overall strategy, in particular as far as corporate social responsibility is concerned.

A last point that deserves attention is the need for transparency. The rich literature review and the different positions advanced by authors and practitioners support the idea that companies are called to be accountable for their tax-related decisions. At the moment, income tax-related information published by companies appears to be largely focused on meeting regulatory requirements rather than stakeholders' claims (UN PRI 2018). A first question that scholars can raise concerns the motivations and barriers that companies face in disclosing data on income tax policies and practices. However, an ethical approach to taxation may prompt new and further demands. For example, the link between the place where the economic operations and sales take place or where customers are based - that is where value is created - and the place where taxes are paid is an emerging and compelling issue on stakeholders' agendas (see, for example, UN PRI 2018 and GRI 2019). Finally, cross-national transitions, international subsidiaries, and the digital economy open new and challenging avenues for addressing legal but also moral duties to pay a fair share of tax.

# PILLAR II.

# CORPORATE TAXATION AND CORPORATE SOCIAL RESPONSIBILITY

The second part of this thesis deals with the investigation of corporate taxation as a CSR issue.

Although for many decades this topic was largely ignored, in recent years the relationship between CSR and corporate taxation has gained growing importance in the public, political, and academic debate to the point that corporate taxation is increasingly interpreted as one of the latest issues to be added to the CSR agenda.

Although CSR is a dominant and widely discussed construct in the B&S debate, defining CSR is not an easy task. Ever since the term was first used (e.g., Bowen 1953; Davis 1960; Frederick 1960; Sethi 1975) intense debates and disagreements have arisen regarding its meaning and key elements. Even nowadays when CSR has become an important and institutionalised academic field of study (Lockett et al. 2006; Aguinis and Glavas 2012), scholars have not yet agreed on a unitary definition.

In his seminal book '*Social Responsibilities of the Businessman*' (1953), Howard Bowen, who is often referred to as the "Father of Corporate Social Responsibility" (Carroll 1999, p. 291), originally defined CSR as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6). As suggested by Bowen's original definition, despite the multiplicity of existing approaches, since its origins CSR has been interpreted as being strictly related to the contribution of companies to the social good and the betterment of society. In the same vein, a more recent and largely cited definition by Matten and Moon (2008, p 405) refers to CSR as "policies and practices of corporations that reflect business responsibility for some *wider societal good*" (emphasis added).

Definitions of CSR proliferated in the 1970s (Carroll 1999) when Archie Carroll developed what is still one of the most widely accepted and used definitions (Carroll 1979), which is said to capture "the lowest common denominator of CSR" (Matten and

Moon 2005, p. 338). Carroll defines CSR as a construct which encompasses four different areas of business-society relations: 1) an *economic* responsibility to produce goods and services and to be profitable; 2) a *legal* responsibility to comply with legal requirements; 3) an *ethical* responsibility to do what is expected of business by society over and above legal requirements; 4) a *discretionary* responsibility to engage in social roles not required by law and not even expected by society in an ethical sense (Carroll 1979, p. 499). In continuing and refining this work, Carroll modelled the four responsibilities as a pyramid and renamed the 'discretionary responsibilities' as 'philanthropic responsibilities' (Carroll 1991). Since the publication of Carroll's original article, there have been a number of important efforts to define and refine CSR (Carroll 1999; De Bakker et al. 2005; Carroll 2008; Lee 2008), including Frederick's (1986, 1994, 1998) distinction between $CSR_1$ (responsibility), $CSR_2$ (responsiveness), $CSR_3$ (rectitude) and $CSR_4$, and the *corporate social performance* model (Wartick and Cochran 1985; Wood 1991).

The abundance of definitions and the lack of a common understanding of CSR is variously perceived by scholars. On the one hand, the lack of a common understanding is thought to be a barrier to the development and the implementation of CSR (Crane et al. 2008; Sheehy 2015), making the CSR concept a "fuzzy one with unclear boundaries" (Lantos 2001, p. 595), which can "mean different things in different places to different people and at different times" (Campbell 2007, p. 950) and that, in the end, "is effectively without meaning" (Frankental 2001, p. 20). However, there are also some authors who argue against the need for a universally-accepted definition of CSR, claiming that the lack of a consensus is not only inevitable but even desirable (Argandoña and von Weltzien Hoivik 2009; Okoye 2009; Guthey and Morsing 2014). For instance, Okoye (2009) acknowledges that CSR is an essentially contested concept, that is a concept "which inevitably involves endless disputes about its proper uses" (Okoye 2009, p. 617). The ambiguity of the CSR concept, whose meaning can change in different contexts and at different times, is seen as a strategic feature which "renders the concept adaptable to a variety of different contexts and circumstances, resilient in the face of change over time, and attractive to a wide spectrum of diverse interests" (Guthey and Morsing 2014, p. 556). Argandoña and von Weltzien Hoivik (2009) posit that a universal agreement on the concept of CSR is impossible, because its scope and content cannot be defined by an abstract framework, but rather they are strictly conditioned and determined by the specific socio-economic and legal context in which a firm is embedded.

Various attempts have been made to develop a definition that captures the core characteristics of CSR. These studies are based on reviewing existing definitions (e.g., Moir 2001; Dahlsrud 2008; Freeman and Hasnaoui 2011; Crane et al. 2013; Sarkar and Searcy 2016), or on theoretical reasoning and philosophical analysis (e.g., Van Marrewijk 2003; Sheehy 2015). The relevance of these studies lies in the identification of some common reference points and factors which can be said to be the key characteristics of CSR:

a) *The principle of voluntariness*. CSR is mainly about voluntary social practices and activities which go beyond "that which is required by law" (McWilliams and Siegel 2001, p. 117). Davis (1973, p. 313) famously stated that "social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do".

b) *The balance of social, environmental, and economic impacts*. Many conceptualisations highlight that CSR is about "the inclusion of social and environmental concerns in business operations" (Van Marrewijk 2003). From this perspective, socially responsible businesses should give the same importance to their social, environmental and economic performance (Dahlsrud 2008; Sarkar and Searcy 2016). This approach echoes Elkington's (2004) triple bottom line idea of economic prosperity, social justice and environmental quality.

c) *The multi-stakeholder approach*. CSR involves decisions, policies and initiatives "that take into account stakeholders' expectations" (Aguinis and Glavas 2012, p. 933). The premise is that businesses do not have responsibilities only to their shareholders but to a larger number of constituencies, such as consumers, suppliers, employees, investors and local communities. Campbell (2007, p. 951) argues that corporations are acting in socially responsible ways when they do two things, "first, they must not knowingly do anything that could harm their stakeholders. Secondly, if corporations do cause harm to their stakeholders, they must then rectify it whenever the harm is discovered and brought to their attention".

d) *The principle of self-regulation*. CSR has recently been understood as a form of self-regulation of business behaviour (Sheehy 2015; Gond et al. 2011), which is "based on "soft law" or private law rather than legally enforceable standards" (Vogel 2010, p. 69). Within this configuration, the focus is on the development, and administration of rules that regulate the role of business in society (in those areas where governments are incapable or unwilling to intervene) as issued by private actors, such as the companies or professional bodies themselves, industrial associations, NGOs, or multi-stakeholder initiatives (Rasche 2012; Mena and Palazzo 2012).

The conceptual relationships between business ethics and CSR remain a matter of discussion (Schwartz and Carroll 2008). Although some scholars argue that the terms CSR and business ethics are interchangeable (Vogel 1991, p. 104; Joyner and Payne 2002, p. 300), or that business ethics can be incorporated in CSR (Carroll 1991), or vice-versa (De George 1987, p 204), the author of this thesis agrees with the view of business ethics and CSR as complementary but distinct constructs, with their own focus and purpose (Fassin et al. 2011; Rusconi 2007; Husted and Allen 2000; Cacioppe et al. 2008; Fassin et al. 2011; Weller 2020). Indeed, although both CSR and business ethics have a normative orientation, their ethical analysis covers different levels, considering that business ethics has its roots in moral philosophy while CSR stems from management literature. According to this view, "social responsibility focuses on the impact that business activity has on society while ethics is concerned with the conduct of people within organisations" (Fisher 2004, p. 393). So, while business ethics focuses on the moral duties, and the ethical decision-making of individuals, corporate social responsibility relates primarily to the consequences of corporate policies and behaviour on both internal and external stakeholders (Epstein 1987, p. 105). In other words, the ethical dimension of CSR does not focus on personal choices and moral reasoning, but rather on the "objective" (Rusconi 2007, p. 9) ethical responsibilities that society expects and demands businesses to fulfil (Husted and Allen 2000, p. 24). This view has been corroborated by empirical studies which investigate managers' perceptions of business ethics and CSR (Cacioppe et al. 2008; Fassin et al. 2011; Weller 2020). For instance, Fassin et al. (2011) show that small-business owners consider CSR to be "more external, more theoretical, more opportunistic and more business-like than business ethics" (Fassin et al. 2011, p. 442). Cacioppe et al. (2008) find that, while there is considerable overlap in perceptions of ethical and socially responsible behaviour, managers perceive CSR as a "somewhat greater macro focus while ethical behaviour has more a micro focus" (Cacioppe et al. 2008, p. 697).

After this necessary premise, the purpose and the structure of this second research pillar can be presented. The main objective of this work is to scrutinise the significance and the relevance of CSR in the context of corporate taxation. More in detail, this pillar serves three main purposes. First, it aims to broaden our knowledge about the motivations and the justifications behind the application of CSR thinking and practice in the context of corporate taxation. Based on a systematic literature review (SLR), chapter 3 ("*Why is corporate taxation a CSR issue? A systematic literature review*") offers a comprehensive discussion of the arguments for, or against, the CSR approach to taxation, as advanced in the literature so far. Furthermore, this SLR serves a second purpose, which is to investigate, in a clear, transparent, and impartially inclusive way, the state-of-the-art of the emerging stream of research dealing with the interplay between corporate taxation and CSR.

After analysing the motivations and justifications behind a CSR approach to corporate taxation, the thesis proceeds to investigate more deeply what responsible tax behaviour consists of. Towards this end, chapter 4 ("*Responsible corporate taxation: an issue of implicit or explicit CSR?*") draws on the framework of explicit and implicit CSR to examine how the appropriate CSR configuration to deal with corporate taxation has evolved over the years, as well as to investigate the mechanisms and the dynamics which have facilitated, and constrained, the transitions from one approach to another. Finally, chapter 5 ("*The path towards corporate taxation as a CSR issue: the role of tax responsibility initiatives*") analyses the main tax responsibility initiatives developed in recent years to drive the transition towards a more explicit CSR approach to corporate taxation. By reviewing the large number of standards, principles, and guidelines, this last chapter offers a comprehensive and detailed roadmap of what a socially responsible approach to corporate tax looks like in practice.

# 3.

# WHY IS CORPORATE TAXATION A CSR ISSUE? A SYSTEMATIC LITERATURE REVIEW

## 3.1 Introduction

As discussed in the introduction of this thesis, CSR has gained significant importance in the context of corporate taxation in recent years. Extending CSR thinking and practices to corporate taxation is considered an alternative mechanism to tackle tax avoidance and aggressive tax planning (Hasseldine and Morris 2013). These terms are used interchangeably to refer to tax schemes that are designed predominantly or exclusively for the purpose of reducing tax and which are based on a literal interpretation of the law that places little weight on its spirit. Furthermore, they are considered "contrary to the principle of Corporate Social Responsibility" (European Commission 2012, p. 6).

Framing corporate taxation as a CSR issue mainly makes companies responsible for voluntarily self-regulating their tax behaviour in those 'grey areas' that are not appropriately regulated by tax laws. This implies that companies are expected to take decisions and actions that go beyond that which is required by tax laws and that optimize the positive effects, in order to minimize the negative effects of their tax practices on the wider societal good.

Nevertheless, the significance and importance of CSR needs to be better scrutinized and understood. Indeed, CSR scholarship has been silent on the issue of the payment of tax for decades (Christensen and Murphy 2004) and only recently has corporate taxation become a "hot topic in the CSR debate" (Hillenbrand et al. 2019, p. 418).

One preliminary question that needs to be addressed relates to the arguments for including corporate taxation in the CSR issue. Indeed, a comprehensive understanding of the motivations for a CSR approach to taxation is a fundamental starting point for guiding the transition towards more responsible tax practices and for enhancing the debate in the academic literature.

In this chapter, the question as to why companies should be socially responsible with regard to taxation is addressed using a systematic literature review (SLR). Papers dealing with CSR and taxation will be collected, scrutinized and content-analysed in order to identify, map and categorise the various argumentations developed to justify (or criticize) the application of CSR in the context of corporate taxation. In particular, these argumentations will be categorised following the widely accepted distinction between *legitimacy-seeking* (i.e., the institutional view of CSR), *instrumental* (i.e., the strategic view of CSR), and *normative* (i.e., the ethical view of CSR) motivations for CSR.

Moreover, the SLR serves a second purpose. It aims to consolidate the emerging stream of research on CSR and taxation, offering a structured overview of what is currently known on this topic and providing directions and suggestions for future research. A descriptive analysis is conducted to track the evolution of the literature over the years, the distribution of papers across journals and geographical areas, the research methods adopted, as well as the definitions and the core characteristics of a socially responsible approach to corporate taxation.

## 3.2 Motivations and theoretical approaches behind CSR

CSR lacks a unitary definition. This is often seen (e.g., Driver 2006, p, 338) as the result of the proliferation of theories and approaches that explain "what catalyses organisations to engage in increasingly robust CSR initiatives and consequently impact social change" (Aguilera et al. 2007, p. 837). In the last decades, a number of studies, of a theoretical (e.g., Garriga and Melè 2004; Lantos 2001; Driver 2006; Husted and De Jesus Salazar 2006; McWilliams et al. 2006; Windsor 2006; De Jesus Salazar and Husted 2008; Lee 2008; Melè 2008; Orlitzky et al. 2011; Van Aaken et al. 2013; Frynas and Yamahaki 2016) and empirical (e.g., Bansal and Roth 2000; Brønn and Vidaver-Cohen 2008; Ditlev-Simonsen and Midttun 2010; Babiak and Trendafilova 2011; Windolph et al. 2014; Schaltegger and Hörisch 2017) nature, have attempted to investigate, map and categorise the variety of motivations and approaches that explain why companies engage (or should engage) in CSR.

This section briefly examines these approaches in order to provide a general framework against which the arguments for corporate taxation as a CSR issue can be mapped and categorised. In particular, the idea that businesses have social responsibilities beyond making profits is grounded on three main lines of argument: instrumental, moral and legitimacy-seeking. Depending on which line is emphasised, three views of CSR are usually distinguished: the institutional view of CSR, the strategic view of CSR, and the ethical view of CSR.

### *3.2.1 Seeking legitimacy: the institutional view of CSR*

The legitimacy-oriented perspective moves from the premise that companies engage in social and environmental activities because they are perceived as potentially beneficial to their firms. In particular, this view sees CSR as a legitimisation tactic to secure the social licence to operate and the existence of the firm (Brønn and Vidaver-Cohen 2008; Windolph et al. 2013; Schaltegger and Hörisch 2017). CSR activities are conceptualised as the outcome of an 'outside-in' process (Frynas and Yamahaki 2016), where the focus is on the integration and satisfaction of the expectations and demands of society on which the business depends for its existence, continuity, and growth (Garriga and Melè 2004; Aguilera et al. 2007).

More in detail, striving for legitimacy refers to a company's ambition to be generally perceived as "desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman 1995, p. 574). Legitimacy is vital for the survival and growth of an organisation "as it is a precondition for the continuous flow of resources and the sustained support by the organisations' constituents" (Palazzo and Scherer 2006, p. 71). Society will perceive the legitimate organisation "not only as more worthy, but also as more meaningful, more predictable, and more trustworthy" (Suchman 1995, p. 575), and stakeholders will be more likely to exchange resources with organisations having these attributes.

As observed by Suchman (1995), Ashford and Gibbs (1990) and others, in the literature there are two major approaches to legitimacy: *strategic* and *institutional*. These approaches provide a different understanding of how companies can gain, and maintain, legitimacy. While the *strategic* approach assumes that managers can proactively adopt certain legitimacy-seeking strategies to manage the organisational legitimacy (e.g., Dowling and Pfeffer 1975; Ashforth and Gibbs 1990), under the institutional approach, organisations gain legitimacy by passively conforming to their institutional environment (DiMaggio and Powell 1983; 1991).

Under the strategic approach to legitimacy, CSR is conceived as a legitimation tactic that managers can use to ensure that their organisations act, and can be seen to be acting, in adherence to what societies consider as acceptable and legitimate (Branco and Rodrigues 2008; Chen et al. 2008; Du and Vieira 2012; Beddewela and Fairbrass 2016; Matten and Moon 2020). This approach has been widely used for explaining how CSR disclosure and reporting can be used strategically by managers as a means of stabilizing and increasing legitimacy and reducing exposure to social concern and reputational risks (e.g., Brown and Deegan 1998; Neu et al. 1998; Deegan et al. 2002; Branco and Rodrigues 2006; Cho and Patten 2007; Branco and Rodrigues 2008; Aerts and Cormier 2009; Reverte 2009; Islam and Deegan 2010; Cho et al. 2012; Khan et al. 2013; Garcia-Sanchez et al. 2014; Chauvey et al. 2015).

In contrast to the strategic tradition, the institutional approach to legitimacy (e.g., DiMaggio and Powell 1983; Meyer and Rowan 1977), which is "almost synonymous with institutional theory" (Frynas and Yamahaki 2016, p. 268), focuses on the processes through which organisations' attitudes and practices become isomorphic with the institutional environment in which corporations are embedded (e.g., DiMaggio and Powell 1983; Meyer and Rowan 1977). Under this perspective, in order to gain legitimacy and survive, organisations must conform to institutionalised social norms, values and beliefs and the potential for managers to manage and influence them is limited (Deephouse 1996; Doh and Guay 2006). Then, institutional theory conceptualises CSR as a response to wider social and institutional pressures (Aguilera et al. 2007; Brammer et al. 2012; Ozdora-Aksak and Atakan-Duman 2016), including *coercive* (i.e., externally codified rules or laws), *mimetic* (i.e., best practices in the institutional field) and *normative* (i.e., standards set by educational and professional authorities) pressures (Matten and Moon 2008; Shabana et al. 2017). As a consequence, the degree to which corporations behave in socially responsible ways is influenced by the conditions of the institutional environment in which firms are embedded (Campbell 2007; Matten and Moon 2008; Jackson and Apostolakou 2010; Muthuri and Gilbert 2011; Ioannou and Serafeim 2012; Marquis et al. 2007).

### 3.2.2 *Seeking economic value: the strategic view of CSR*

The strategic model of CSR conceives corporate involvement in pro-social behaviour as an opportunity to contribute to the achievement of corporate financial goals (Baron 2001; Lantos 2001; McWilliams et al. 2006; Husted and De Jesus Salazar 2006; Porter and Kramer 2006; Heslin and Ochoa 2008; Lee 2008; Orlitzky et al. 2011). Early CSR scholars had already noted that "of the many arguments favouring social responsibility, one of the most prevalent is that of the long-term self-interest of business" (Davis 1973, p. 313) and attacked the myth that "corporate social responsibility is in fundamental conflict with investor interests" (Bowman 1973, p. 42). In the literature, this strategic approach to CSR is also known as 'economic' CSR (Windsor 2006), 'enlightened self-interest' (Mintzberg 1983), 'corporate social strategies' (Husted and Allen 2007; Husted et al. 2015) and 'shared value strategy' (Porter and Kramer 2011).

Strategic CSR is defined as a particular form of CSR that "yields substantial business-related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in accomplishing its mission" (Burke and Logsdon 1996, p. 496). Strategic CSR aims to create a win-win situation in which both some financial advantages for the firm and some social good are pursued (Lantos 2001; McWilliams and Siegel 2011; Vishwanathan et al. 2019). As a consequence, CSR is seen as a form of investment (McWilliams and Siegel 2001) and firms are advised to engage in socially and environmentally responsible activities only to the extent that these practices can enhance profitability or shareholder wealth (Heslin and Ochoa 2008; Siegel 2009).

The profit-oriented view of CSR is reflected in a stream of academic research which investigates the relationship between corporate social performance (CSP) and corporate financial performance (CFP), to address a question usually put in the following terms: "Does it pay to be good?" (Barnett and Salomon 2012, p. 1304). Although some authors question the inconsistency of existing findings (Roman et al. 1999; Husted and De Jesus Salazar 2006), a number of literature reviews (e.g., Orlitzky et al. 2003; Margolis and Walsh 2003) and meta-analyses (e.g., Van Beurden and Gössling 2008; Wang et al. 2016) have corroborated the view that firms can 'do well by doing good'. The mechanisms by which 'doing good' is translated into 'doing financially well' are understood as the 'business cases' for CSR (e,g, Kurucz et al. 2008; Weber 2008; Heslin and Ochoa 2008;

Carroll and Shabana 2010; Schaltegger et al. 2012; Grewatsch and Kleindienst 2017; Vishwanathan et al. 2019), which have mainly been observed and discussed by adopting the theoretical lens of the *resource-based view* (RBV) and the *instrumental stakeholder theory* of the firm (McWilliams et al. 2006; Grewatsch and Kleindienst 2017):

a) The *resource-based view* (RBV) suggests that the ability of firms to obtain a sustainable competitive advantage depends on their *capabilities* to exploit valuable, rare, inimitable, and non-substitutable (tangible or intangible) *resources* (Wernerfelt 1984; Barney 1991). Then, from the RBV perspective, investing in CSR activities is seen as an opportunity to help firms to create and enhance resources and capabilities that can provide competitive advantages (Hart 1995; Russo and Fouts 1997; McWilliams et al. 2006; Branco and Rodrigues 2008; Orlitzky et al. 2011; McWilliams and Siegel 2011), in particular corporate reputation (Orlitzky et al. 2003; Branco and Rodrigues 2006; Lourenço et al. 2014; Tetrault Sirsly and Lvina 2019).

b) The *instrumental stakeholder theory* suggests that companies which consider and satisfy the interests and needs of all their stakeholders, generally defined as "those who affect and are affected by the achievement of the organisation's objective" (Freeman 1984, p. 23), will benefit from superior financial performance (Harrison et al. 2010; Jones et al. 2018). As summarized by Jones (1995, p. 422), instrumental stakeholder theory holds that "firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over those that do not".

### *3.2.3 Normative arguments: the ethical view of CSR*

The ethical model of CSR emphasises the altruistic or 'other-regarding' motivations of companies as key to understanding the concept of social responsibility. From an ethical perspective, CSR is conceived as "morally mandatory and goes beyond fulfilling a firm's economic and legal obligations, to its responsibilities to avoid harms or social injuries, even if the business might not benefit from this" (Lantos 2001, p. 65). Also Argandoña and von Weltzien Hoivik (2009) define CSR as an ethical concept which includes all the moral responsibilities towards society. They argue that "the first reason for a firm to be responsible must be that this is its ethical duty, beyond any other argument or advantage, either material or reputational" (Argandoña and von Weltzien Hoivik 2009, p. 224).

Therefore, ethical CSR transcends the economic idea that pro-social behaviour should benefit the corporation itself. Irrespective of the ethical position one may choose (i.e., consequentialist or deontological), the ethical approach assumes that firms' engagement in CSR is "morally guided and relates to an ethical argument for 'the right thing to do'" (Ditlev-Simonsen and Midttun 2011, p. 29). Companies engage in social initiatives because they are driven by a pure and genuine concern for the social good and by the belief that those activities are ethically sound (Bansal and Roth 2000; Payne and Raiborn 2001). In other terms, corporations are perceived to have a "moral obligation to invest in making the world a better place for future generations" (Brønn and Vidaver-Cohen 2009, p. 104). According to Mintzberg (1983, p. 3) "in its purest form, social responsibility is supported for its own sake because that is the noble way for corporations to behave". Similarly, Carroll and Shabana (2010, p. 95) argue that ethical responsibilities "capture and embrace the essence of the concept of CSR". Although from an ethical perspective the question of whether it pays or not to be socially responsible is not relevant (Marcus and Fremeth 2009), businesses cannot decide to pursue wholly altruistic social goals without any concern for profitability or longevity: to do so "would be to guarantee organisational failure" (Payne and Raiborn 2001, p. 160).

Ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members, even though they are not codified into law, since they are regarded as fair, just, or in keeping with the respect or protection of stakeholders' moral rights (Carroll 1991).

Additionally, ethical CSR involves altruism and self-restraint, where altruism is a "voluntary contribution to society and stakeholders based on other-regarding attitudes" (Windsor 2006, p. 98) and self-restraint is a "moral and/or political choice to avoid exploiting market opportunities left legally unregulated (Windsor 2006, p. 98).

Garriga and Melè (2004) distinguish the following main theoretical approaches to ethical CSR: *normative stakeholder theory*, *universal right, sustainable development*, and the *common good approach*. Among them, the normative stakeholder theory is by far the predominant framework (Melè 2008; Frynas and Yamahaki 2016). In a nutshell, normative stakeholder theory suggests that companies should not try to satisfy the interests of stakeholder groups in expectation of profitability in the long term, but because it is their moral duty to do so. In order to give greater guidance in such situations, scholars have combined stakeholder theory with various ethical approaches such as those developed by Rawls (Phillips 1997), deontologists (Bowie 1999), critical theorists (Reed 2002) and libertarians (Freeman and Philips 2002).

## 3.3 Methodology

The main purpose of this chapter is to investigate the reasons why companies should include corporate taxation in their CSR agenda. This question is addressed through an SLR in order to identify the various argumentations for a CSR approach to corporate taxation advanced in the literature, and to map and categorise them along the institutional, strategic, and moral dimensions of CSR as discussed above. Additionally, this methodology leads to a comprehensive understanding of the state-of-the-art of the literature on CSR and corporate taxation and offers suggestions for future research avenues.

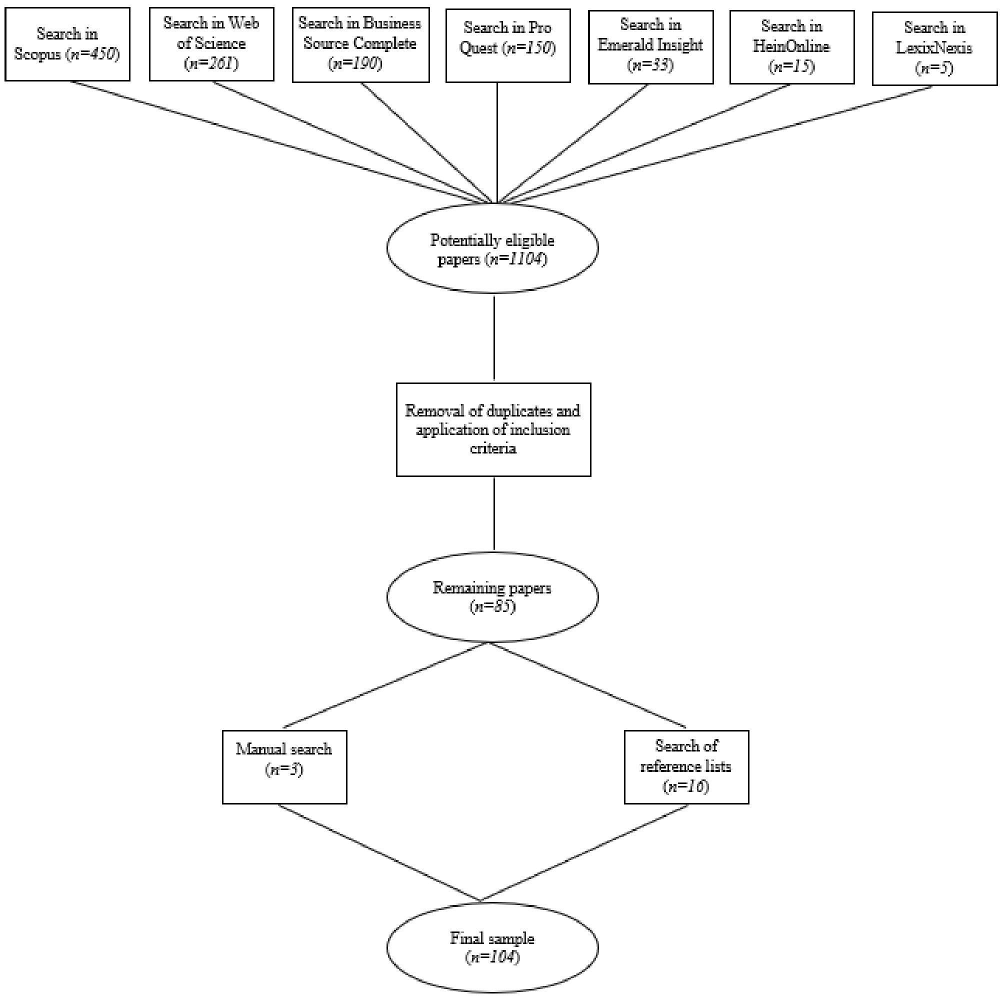
An SLR is a method "for studying a corpus of scholarly literature, to develop insights, critical reflections, future research paths and research questions" (Massaro et al. 2016). This methodology originated in the medical, health care, and policy fields for collecting the best evidence to make clinical and policy decisions (Tranfield et al. 2003). As far as management research is concerned, SLRs are used to provide transparent, clear, accessible, and impartially inclusive coverage of a particular research area. SLRs differ from traditional literature reviews because they adopt "a replicable, scientific and transparent process, in other words a detailed technology, that aims to minimize bias through exhaustive literature searches of published and unpublished studies" (Tranfield et al. 2003).

Consistently with previous SLRs in the CSR field (e.g., Aguinis and Glavas 2012; Osagie et al. 2015; Faller and Zu Knyphausen-Aufseß 2018), this chapter employs a two-stage review process, which includes 1) the collection of all relevant publications; 2) the definition of a framework for analysing papers.

### 3.3.1 *Data collection*

In order to ensure the representativeness and completeness of the literature under review, the sampling procedure included different database searches followed by two additional searches (see Figure 3.1)[6].

**Figure 3.1** Process of paper collection




#### 3.3.1.1 *Database search*

As a starting point, a structure keyword search was launched in major electronic databases accessible through the author's university library system. In line with prior literature

[6] The last update was on June 30, 2020.

reviews in management studies, the following databases were accessed: Business Source Premier via EBSCOhost, Emerald Insights, ProQuest, Scopus and Web of Science. Additionally, the databases Lexis Nexis and HeinOnline were used to ensure that papers published in legal journals were also included in the sample. With the exception of HeinOnline, which offered only the search by title, all databases were searched by the title, abstract, and keywords of the articles. The search consisted of combinations of terms including the words 'tax' and 'taxation' combined with 'CSR' and 'social* *respons*' to encompass various expressions referring to 'corporate social responsibility' that use all possible variants of 'social' (e.g., socially) and 'responsibility' (e.g., responsible, irresponsible, responsibly, irresponsibly), consistently with Guthey and Morsing (2014) and Lee and Riffe (2019). For practical reasons, only papers written in English were selected. The review was not restricted by date so that the evolution and growth of the literature under examination could be tracked across time. To ensure the quality of the publications, only peer-review publications in academic journals and book chapters were selected. The number of papers retrieved from each database was recorded, as shown in Figure 3.1. Altogether, the combined database searches yielded 1,104 articles (including duplicates) for consideration in the review sample. Papers collected from the database searches were gathered in an Excel database with details of the author/s, article title, journal, volume, year of publication, pages, keywords and abstract (where available). After removing the duplicates, the number of papers for consideration was 695. The following step consisted in an in-depth review of all the papers to select only publications that were appropriate for answering the research question (i.e., papers focused on the relationship between CSR and corporate taxation). The screening involved reading all the abstracts and, where necessary, the full texts. Papers were excluded when the words 'tax' or 'taxation' were only mentioned without being the focus of the paper and when the main theme was the taxation of individuals rather than corporations. Furthermore, a previous literature review (Whait et al. 2018) was identified and excluded. After cleaning the publications, 85 appropriate papers were obtained.

#### *3.3.1.2 Additional searches*

In order to uncover additional relevant papers that the database searches might not have included, two additional searches were conducted. First, a manual search was carried out in the most relevant journals in the business and society field (see Crane and Glozer

2016): *Business Ethics: A European Review*, *Business Ethics Quarterly*, *Business & Society*, *Corporate Social Responsibility and Environmental Management* and *Journal of Business Ethics*.

The websites of these journals were screened by searching for the terms 'tax' and 'taxation' in the title, abstract and keywords of the articles. Including terms related to CSR was deemed unnecessary and counterproductive when searching for articles published in journals exclusively or mainly dedicated to these fields. These manual searches resulted in 3 additional relevant articles being included in the sample. Finally, following Peloza and Shang (2011, p. 120) the process was supplemented by a search of the reference lists of the publications collected to identify any additional articles that may have been overlooked by the previous keyword searches. This step produced 16 relevant publications to be added to the final sample. Consequently, the final sample includes 104 papers.

### *3.3.2 Data analysis: a framework for organising literature*

After collecting the relevant publications, a framework was developed for organising and analysing the literature in order to address the twofold purpose of the chapter, which is 1) to discuss the evolution and the state-of-the art of the literature on CSR and corporate taxation, and 2) to offer a comprehensive understanding of the arguments for including corporate taxation in the CSR agenda.

In order to address the first research question, similarly to other literature reviews (e.g., Yamar and Seuring 2017; Dembek et al. 2019), the starting point was the identification of some basic features of the papers, such as the name of the journal, the year of publication, the type of study (i.e., conceptual or empirical), the research question and the research method applied. Then, the definitions of socially responsible/irresponsible tax practices were collected, in order to gain a better understanding of the meaning of a CSR approach to corporate taxation.

In the meantime, a framework was developed to identify, map and categorise the arguments for framing corporate taxation as a CSR issue. A distinction was made between *institutional*, *strategic,* and *normative* argumentations, reflecting the typical lines of motivations generally advanced for CSR, as previously discussed in this chapter:

a) *Institutional* arguments, seek to provide evidence that framing corporate taxation as a CSR issue is a well-established and institutionalised approach, so that failing to be socially responsible in tax matters may jeopardise a firm's legitimacy and its licence to operate in society.
b) *Strategic* arguments seek to establish connections between the CSR approach to corporate taxation and various outcomes related to organisational performance. In other words, they reflect the economic view of CSR and test the hypothesis that firms which are socially responsible in taxation will perform financially better than tax-avoiding firms.
c) *Normative* arguments seek to capture the intrinsic value of the CSR approach to corporate taxation above any economic and financial considerations. This approach, which reflects the ethical or normative view of CSR, draws on fundamental ethical theories to prescribe normative argumentations as to why corporate tax behaviour should be socially responsible.

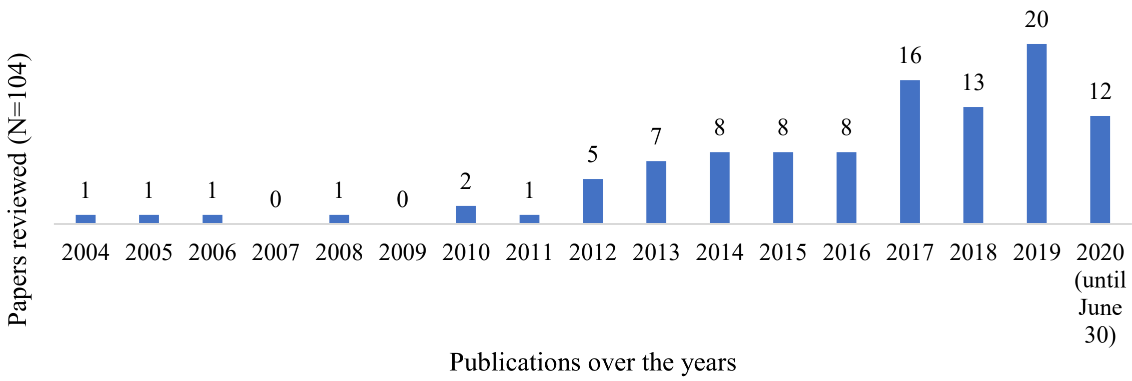
## 3.4 Descriptive aspects of the literature on CSR and taxation

The starting point of this literature review is a descriptive analysis to gain insights into the formal aspects of papers under review and serves as a background for more detailed analyses. Consistently with prior literature reviews (e.g., Yawar and Seuring 2017), the descriptive analysis includes: 1) the distribution of the publications over time; 2) the distribution of articles across journals; 3) the geographical distribution of authorship of the papers; 4) the categorisation of the papers according to the research method applied.

### *3.4.1 Distribution of publications over time*

This analysis focuses on how the research topic under examination has evolved over the years (see Figure 3.2).
Although the call for incorporating corporate taxation into the CSR agenda was initially made decades ago (Crumbley et al. 1977), CSR scholarship has ignored the issue of corporate taxation for many years.

**Figure 3.2** Distribution of publications over time




In 2004, Christensen and Murphy expressed their surprise at the lack of interest of CSR literature in corporate taxation:

> "It is more curious still that the debate about Corporate Social Responsibility (CSR), which has touched on virtually every other area of corporate engagement with broader society has scarcely begun to question companies in the area where their corporate citizenship is most tangible and most important - the payment of tax" (Christensen and Murphy 2004, p. 37).

Two years later, Desai and Dharmapala (2006) made a brief exhortation to investigate "how taxes can be understood within the larger debates over how corporations contribute to society".

Despite these exhortations, only 12 articles were published before 2013. One potential explanation for the scarce interest in corporate taxation as a CSR issue may be "that taxation lacks the sensationalist, attention-grabbing nature of environmental and human rights abuses" (Fisher 2014, p. 353). According to Moon and Vallentin (2019, p. 29), the lack attention paid by CSR scholarship to taxation "was perhaps partly for ideological reasons: being pro-tax is obviously to be pro-government (many CSR supporters are not), but also the tax issue had not yet developed into a problem of the magnitude that we see today, enabled by the forces of financialization and globalization".

More recently, the topic has begun to attract considerable academic attention and most papers (58.65%) were published in the period 2017-2020, suggesting that corporate tax behaviour is now considered a "hot topic" (Hillenbrand et al. 2019) in the CSR literature. This growth has been interpreted as a consequence of the deterioration of the public budget caused by the 2008-2009 global financial crisis (Knuutinen 2014) as well as the increased attention to corporate tax schemes and their effects on society both from the media, NGOs, the public opinion and national and international institutions (Sikka 2010;

De la Cuesta-González and Pardo 2019). Despite the increase in publications over recent years "actual academic work - be it conceptual or empirical - remains scarce" (Hillebrand et al. 2019, p. 418) and, consequently, a wealth of opportunities exists for further research.

### *3.4.2 Distribution of publications across journals*

Interestingly, articles included in this review were published in 62 different journals, as listed in Table 3.1 that includes the rating from the (UK) Association of Business Schools' Journal Quality Guide (JQG)[7]. The *Journal of Business Ethics*, containing 13.50% of the papers, proves to be the most popular outlet for publications dealing with CSR and corporate taxation, followed by *Social Responsibility Journal* and *Accounting Auditing & Accountability Journal* (4.80%). Additionally, results suggest that most of the papers are published in journals of three main fields: Business and Society (30.77%), Accounting (29.81%) and Law (14.42%). When the CABS ratings are examined, it is encouraging to note that, although a few of the journals are not included (especially law journals), a significant number of them have good ratings: 37% of the articles were published in journals rated 3, 4 or 4*, while 47% were published in journals rated at least 2. Such journals tend to have relatively high visibility within the academic community.

**Table 3.1** Distribution of publications among journals

| **Name of the Journal** | **No.** | **%** | **ABS rating** | **Field** |
|---|---|---|---|---|
| Journal of Business Ethics | 14 | 13,5% | 3 | Business and society |
| Accounting Auditing & Accountability Journal | 5 | 4,8% | 3 | Accounting |
| Social Responsibility Journal | 5 | 4,8% | n.a. | Business and society |
| Sustainability | 4 | 3,8% | n.a. | Business and society |
| Accounting Forum | 3 | 2,9% | 3 | Accounting |
| Accounting Review | 3 | 2,9% | 4* | Accounting |
| Corporate Social Responsibility & Environmental Management | 3 | 2,9% | 1 | Business and society |

[7] The CABS (the Chartered Association of Business Schools, the leading UK organisation for business schools) produces a well-established Journal Quality Guide. The 2018 Version can be summarized as describing journals as follows: 4* = elite; 4 = a top journal in its field; 3 = highly regarded; 2 = well regarded; 1 a modest standard journal.

| | | | | |
|---|---|---|---|---|
| Corporate Governance: The International Journal of Business In Society | 2 | 1,9% | 2 | Business and society |
| Ejournal of Tax Research | 2 | 1,9% | n.a. | Law |
| Journal of Cleaner Production | 2 | 1,9% | 2 | General Management |
| Journal of The American Taxation Association | 2 | 1,9% | 3 | Accounting |
| Accounting Perspectives | 1 | 1,0% | n.a. | Accounting |
| Accounting, Organisations & Society | 1 | 1,0% | 4* | Accounting |
| American Accounting Association | 1 | 1,0% | n.a. | Accounting |
| Asia-Pacific Journal Of Accounting & Economics | 1 | 1,0% | 2 | Accounting |
| Australian Tax Forum | 1 | 1,0% | n.a. | Law |
| Boston College Law Review | 1 | 1,0% | n.a. | Law |
| Boston University Law Review | 1 | 1,0% | n.a. | Law |
| British Tax Review | 1 | 1,0% | 3 | Accounting |
| Business & Professional Ethics Journal | 1 | 1,0% | 1 | Business and society |
| Business & Society | 1 | 1,0% | 3 | Business and society |
| Business and Economics Journal | 1 | 1,0% | n.a. | Economics |
| Business And Human Rights Journal | 1 | 1,0% | n.a. | Business and society |
| Cogent Business & Management | 1 | 1,0% | 1 | General Management |
| Contemporary Accounting Research | 1 | 1,0% | 4 | Accounting |
| Corporate Reputation Review | 1 | 1,0% | 1 | Marketing |
| Critical Perspectives on Accounting | 1 | 1,0% | 3 | Accounting |
| Current Legal Problems | 1 | 1,0% | n.a. | Law |
| Development | 1 | 1,0% | n.a. | International business |
| Ec Tax Review | 1 | 1,0% | n.a. | Law |
| Ethical Perspectives | 1 | 1,0% | n.a. | Business and society |
| European Business Law Review | 1 | 1,0% | n.a. | Law |
| Florida State University Business Review | 1 | 1,0% | n.a. | Law |
| Houston Business and Tax Law Journal | 1 | 1,0% | n.a. | Law |

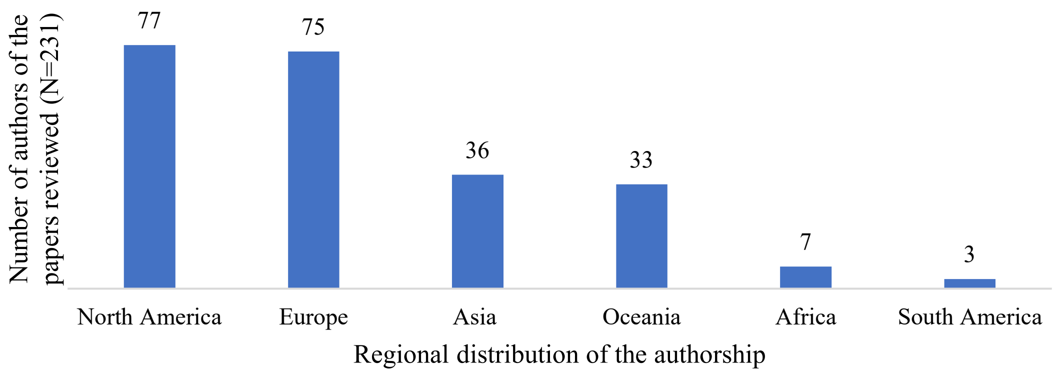
| | | | | |
|---|---|---|---|---|
| International Journal of Accounting | 1 | 1,0% | 3 | Accounting |
| International Journal of Accounting and Information Management | 1 | 1,0% | 2 | Accounting |
| Intertax | 1 | 1,0% | n.a. | Law |
| Journal of Accounting and Public Policy | 1 | 1,0% | 3 | Accounting |
| Journal of Accounting, Auditing & Finance | 1 | 1,0% | 3 | Accounting |
| Journal of Accounting Research | 1 | 1,0% | 4* | Accounting |
| Journal of Accounting, Ethics And Public Policy | 1 | 1,0% | n.a. | Accounting |
| Journal of Applied Business Research | 1 | 1,0% | n.a. | General Management |
| Journal of Business Research | 1 | 1,0% | 3 | General Management |
| Journal of Corporate Finance | 1 | 1,0% | 4 | Finance |
| Journal of Financial Reporting and Accounting | 1 | 1,0% | n.a. | Accounting |
| Journal of International Accounting, Auditing and Taxation | 1 | 1,0% | 3 | Accounting |
| Journal of International Accounting Research | 1 | 1,0% | 2 | Accounting |
| Journal of International Financial Management & Accounting | 1 | 1,0% | 2 | Finance |
| Journal of Management Accounting Research | 1 | 1,0% | 2 | Accounting |
| Journal of Management Policy & Practice | 1 | 1,0% | n.a. | General Management |
| Leading Perspective | 1 | 1,0% | n.a. | International business |
| New York University Journal Of Law & Business | 1 | 1,0% | n.a. | Law |
| Nordic Tax Journal | 1 | 1,0% | n.a. | Law |
| Pacific Accounting Review | 1 | 1,0% | 1 | Accounting |
| Quality and Quantity | 1 | 1,0% | n.a. | Finance |
| Review of Integrative Business and Economics Research | 1 | 1,0% | n.a. | Economics |
| Review of Quantitative Finance And Accounting | 1 | 1,0% | 3 | Finance |
| Scandinavian Journal of Management | 1 | 1,0% | 2 | General Management |
| Social & Legal Studies | 1 | 1,0% | n.a. | Law |
| The Journal of Applied Business and Economics | 1 | 1,0% | n.a. | Economics |
| Third World Quarterly | 1 | 1,0% | 2 | International business |

| | | | | |
|---|---|---|---|---|
| Western New England Law Review | 1 | 1,0% | n.a. | Law |
| Book chapters | 8 | 7,7% | | |

### *3.4.3 Geographical distribution of the papers*

Figure 3.3 shows the affiliations of the authors who wrote the papers included in this literature review. Results suggest that the Western perspective dominates the understanding of the relationship between CSR and corporate taxation: 33.33% of the authors are North American while 32.47% are European. With regard to the other continents, scholars from Asia and Oceania represent respectively 15.58% and 14.29% of the total number of authors. The contributions of African and South American scholars account for only 3.03% and 1.30% respectively, even though many tax scandals reported by the media and NGOs are associated with MNEs carrying on their activities, and not paying their fair share of taxes, in African and other developing countries. In the future, researchers could focus on investigating how the perceptions of the social appropriateness of certain corporate tax strategies differ between developed and developing countries.

**Figure 3.3** Regional distribution of the authorship for the paper reviewed

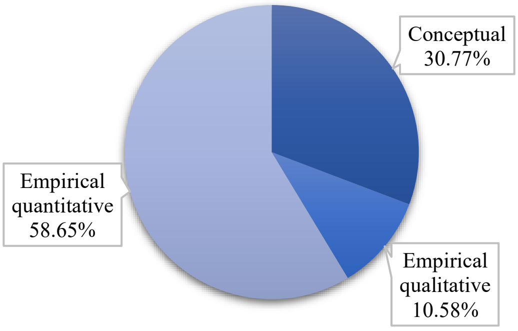



### *3.4.4 Research methods applied*

This kind of analysis provides insights into the type of research method that has been applied in the field of research under review (see Figure 3.4).

Findings indicate that most articles (58.65%) included in this literature review employ quantitative methods, mainly to develop and support hypothesis about the relationship between a firm's CSR performance and its level of tax avoidance. Only 10.58% of the articles use qualitative methods, typically in-depth case studies, interviews or qualitative content analysis, to investigate how companies and their stakeholders perceive corporate taxation in the context of CSR. The high number of empirical studies indicates that the field has progressed from the state of mere reasoning to engage in empirical investigations. Empirical research is complemented by a significant proportion of papers (30.77%) being conceptual and theoretical, offering normative reasoning in favour or against the CSR approach to corporate taxation.

**Figure 3.4** Research methods applied




### *3.4.5 Core characteristics of the socially responsible approach to corporate taxation*

Scholars underline that addressing tax as a CSR issue does not mean that more taxes must be paid than the law requires or that reasonable tax planning should cease (Knuutinen 2014, p. 66; Moon and Vallentin 2019, p. 24). However, CSR provides a framework to guide business tax behaviour beyond mere legal compliance to seek a balance between profit seeking and a socially acceptable behaviour, especially in those arenas in which regulations are ill-defined or non-existent.

Even if only few scholars offer a formal definition of responsible tax practices (e.g., De la Cuesta-González and Pardo 2019), many authors have identified a set of tax-related actions perceived as socially responsible or irresponsible (Table 3.2). Reviewing the literature, it has emerged that scholars tend to reproduce some essential features, which can be considered the five core characteristics of socially responsible tax behaviour (Figure 3.5): 1) the payment of a fair share of tax; 2) compliance with both the 'letter' and the ‘spirit’ of tax law; 3) reducing negative externalities of tax practices; 4) multiple stakeholder orientation; 5) tax transparency.

**Table 3.2** Selected scholars’ definitions of socially responsible tax behaviour

| **Source** | **Definition** |
|---|---|
| Antonetti and Anesa, 2017 | A socially responsible tax behaviour is a fair approach to taxation that translates into paying the amount of taxes that is proportionate to revenues. The company’s tax strategies do not exploit loopholes in international regulations and are based on transactions with real economic substance. |
| Baudot et al., 2020 | Firms are expected to refrain from engaging in overly aggressive tax avoidance behaviours and, thus, to pay their fair share of taxes to contribute to society as part of their assumption of CSR |
| Bird and Davis-Nozemack, 2018 | Firms have a duty-based obligation to avoid tax avoidance and conform their tax payments to the ethical and social obligations that society imposes on other parts of a firm’s value chain. |
| De la Cuesta-González and Pardo, 2019 | Corporate tax responsibility is a set of tax-related practices and policies through which companies pay a fair share of taxes as a function of their generated value for each jurisdiction in which they operate and publicly disclose this information. |
| Dowling, 2014 | From a CSR perspective, companies have an obligation to structure their affairs in such a way as not to avoid paying a ‘‘fair share’’ of tax on their profits to the State. This behaviour is guided by the ethics and moral compass of the company. |
| Hardeck and Hertl, 2014 | Responsible corporate tax strategies try to ensure that the company pays its fair share of taxes. |
| Hillenbrand et al., 2019 | Socially responsible businesses may be well advised to think of their tax strategies from a multi-stakeholder perspective and to engage with community groups to understand public expectations. |
| Jenkins and Newell, 2011 | Responsible tax strategy involves not only taking steps to ensure that the company does not engage in tax avoidance, but also requires a high level of transparency. |
| Lanis and Richardson, 2012; Munisami, 2018 | The CSR obligation is that companies pay their fair share of taxes. |
| Lanis and Richardson, 2015 | Behaving responsibly when it comes to tax requires being more transparent on tax management and on the specific amounts and rates paid in their countries of operations and being more responsive to pressures of moral obligation. |

| | |
|---|---|
| Lenz, 2020 | A responsible taxpayer acts in accordance with the letter and the spirit of the law. |
| Moon and Vallentin, 2019 | To address tax as a CSR issue – and to talk about it in beyond compliance and responsible tax planning terms – is not to call for companies to pay more taxes than they are obliged to according to tax laws. It is to call for self-restraint in how they engage in tax planning activities in order to minimize their tax payments. It is to call for corporate adherence to the spirit as well as the letter of tax law. |
| Muller and Kolk, 2015 | A responsible approach to tax means taking any steps that would curb the harmful effects of tax avoidance on the economic wellbeing of society, retain good standing with the tax authority by complying with and following the underlying spirit of the tax law and address the tax-based 'moral free space' by affording tax a more prominent place in corporate codes of ethics. |
| Narotzky, 2016 | Responsible tax practices involve compliance with the law, help carrying the burden and paying a fair share of taxes, more transparency and refraining from aggressive tax schemes. |
| Payne and Raiborn 2018 | A responsible taxpayer considers all stakeholders affected by tax decisions, respects the relationship between society and business and meets the ethical obligation to society by paying a fair share of taxes in the country whose citizens buy the entity's products and services. |
| Preuss, 2012 | From a CSR perspective, tax should not be seen as a cost to the business but as part of the economic contribution of business to society. |
| Ylönen and Laine, 2015 | A responsible approach to tax involves voluntary tax disclosures. |
| Zicari et al., 2018 | Fiscally responsible companies are supposed to follow certain standards in terms of transparency, increased accountability and robust corporate governance. |

**Figure 3.5** Core characteristics of socially responsible tax behaviour

The five key pillars of responsible tax practices are briefly discussed in the following:

a) *Payment of a fair share of tax.* A socially responsible approach to taxation sees the payment of tax as a "duty-based obligation" (Bird and Davis-Nozemack 2018, p. 1010) for contributing to society rather than as a cost to be minimized. Therefore, most scholars argue that the CSR obligation is the payment of a fair share of tax in all the jurisdictions where firms operate in function of the value generated in each jurisdiction (Hardeck and Hertl 2014; Lanis and Richardson 2015; Munisami 2018; De la Cuesta-González and Pardo 2019; Baudot et al. 2020). This approach is consistent with the internationally agreed principle to tax corporate profits where value is created (OECD BEPS 2015). Although perception of fairness may vary among taxpayers (Saad 2010; Farrar et al. 2019), in this context fairness is mainly conceived in terms of distributive fairness, which occurs when individuals "perceive an outcome as representing their fair share" (Farrar et al. 2020, p. 489). Building on horizontal fairness, De la Cuesta-González and Pardo (2019, p. 2177) argue that the share of tax paid by a company can be said to be 'fair' when it equates with the tax treatment of "taxpayers of similar economic standing".
b) *Compliance with both the 'letter' and the 'spirit' of tax law.* Socially responsible taxpayers should conform their tax behaviour to the ethical expectations of society. As argued by Carroll (1991; 2016), an important component of businesses' ethical responsibilities to society is compliance with the 'spirit' of the law. Following this approach, many scholars contend that mere compliance with the letter of the tax law is not in line with the taxpayer's ethical responsibilities, and cannot, therefore, be considered socially responsible behaviour (Hansen et al. 1992; Knuutinen 2014; Lenz 2020; Lanis and Richardson 2012b, p. 75). Indeed, using strictly literal interpretations of the tax code to circumvent legislative intent would be classified by Schwartz and Carroll (2003, p. 510) as "opportunistic compliance". Conversely, in order to be perceived as socially responsible, taxpayers are expected to meet both the letter and the spirit of the law, where the spirit refers "both to the legislative policy goals that inform tax law and to the balance of competing social norms expressed in the tax code" (Ostas 2020, p. 86).

c) *Reducing negative externalities of tax practices*. Some scholars define socially responsible tax behaviour in negative terms by identifying a set of tax practices that, although legal, are perceived as morally questionable and socially irresponsible. From this perspective, a responsible approach to tax means taking any steps that would curb the harmful effects of corporate tax practices on the society's wellbeing (Muller and Kolk 2015). In particular, socially responsible taxpayers are expected to self-restrain from engaging in aggressive tax schemes and tax avoidance that, although financially beneficial for the firm, undermine the states' ability to provide public goods and services (de Colle and Bennett 2014; Avi-Yonah 2014; Narotzky 2016). As any CSR issue, socially responsible tax planning "may necessitate the sacrifice of profits to mitigate financial harm to various other stakeholders" (Fisher 2014, p. 354). Typical examples of such practices are the use of offshore tax havens (Preuss 2012b; Col and Patel 2019) and transfer pricing arrangements (Ylönen and Laine 2015).
d) *Multiple stakeholder orientation.* Viewing tax activities from a multi-stakeholder perspective is seen as a necessary condition for a company to be socially responsible when it comes to taxation (De Colle and Bennett 2014; Hardeck and Kirn 2016; Payne and Raiborn 2018; Hillenbrand et al. 2019). A socially responsible approach to taxation requires meaningful and proactive engagement not only with stakeholders that may be seen as instrumentally useful in setting tax rules and regulations (i.e., government, shareholders, tax authorities), but with the wider group of societal players to understand their expectations, interests and claims regarding corporate tax behaviour (Hardeck et al. 2019; Hillenbrand et al. 2019).
e) *Tax transparency.* An essential component of stakeholder engagement is the adoption of transparent communication about tax (Jenkins and Newell 2011; Hardeck and Kirn 2016). Tax transparency can promote trust and credibility in organisations' tax practices and enables stakeholders to make informed judgments about an organisation's tax position. For instance, tax reporting should provide meaningful and understandable information about a firm's approach to tax and the specific amount of taxes paid in the different countries where it operates (i.e., country-by-country reporting).

## 3.5 Discussion: *institutional*, *instrumental* and *normative* arguments for corporate taxation as a CSR issue

Having described the more formal aspects of the literature on CSR and corporate taxation, and having examined what socially responsible tax behaviour is like, the following sections address the main purpose of this chapter, which is to understand the arguments that make corporate taxation a CSR issue. Towards this end, papers of the sample were content analysed and the arguments for, or against, the CSR approach to taxation were identified, mapped, and categorised based on their *institutional*, *instrumental* or *normative* logic. This categorisation reflects the widely accepted distinction of the arguments for CSR, as previously discussed in this chapter.

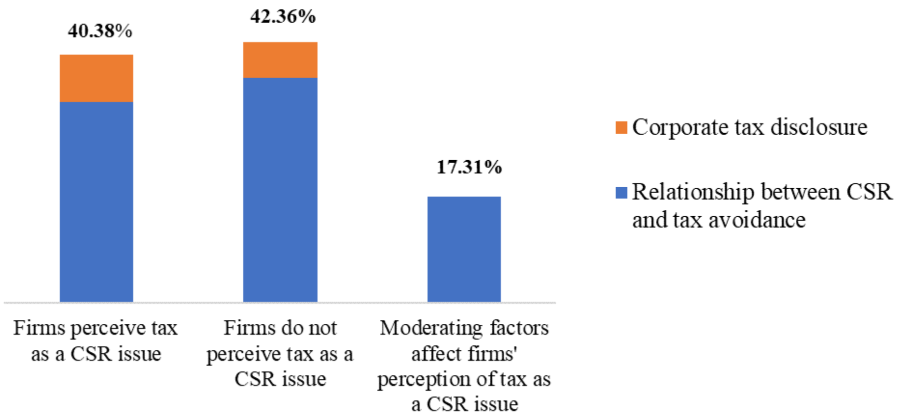
### *3.5.1 Institutional dimension*

Papers following an institutional logic investigate whether companies consider the payment of corporate tax as part of their CSR agenda. This approach reflects the legitimacy-seeking view of CSR, according to which socially responsible activities become institutionalised because they give legitimacy to firms. As a result, any perceived gap between a firm's tax behaviour and what is regarded as a legitimate way to approach tax responsibility may threaten the firm's licence to operate in society. Furthermore, these papers attempt to provide empirical evidence that the CSR approach to corporate taxation is institutionalised and regarded as legitimate in the corporate field. This approach has been adopted by a large number of papers of the sample. A first group of studies examines the relationship between a firm's CSR performance and its level of tax avoidance, both in qualitative (4 items) or quantitative (39 items) ways [8]. At the heart of these studies is an empirical question generally posed as follows: 'Do corporations with high (or low) CSR performance engage in tax avoidance?'. By contrast, a second group of studies examines the extent to which firms discuss tax payments in their CSR or sustainability reports (7 items). As summarized in Figure 3.6, these studies have provided mixed and contradictory findings on the relationship between CSR and corporate tax payments: 22 studies (42.31%) reveal that companies consider corporate tax payments and CSR as

[8] See Appendix A for an overview of the main feature of quantitative studies on the CSR-tax avoidance relationship.

substitutes; 21 studies (40.38%) document that companies consider corporate tax payments and CSR as complements; 9 studies (17.31%) find that the extent to which companies consider corporate taxation as part of their CSR agenda is affected by some, internal and external moderating factors.

**Figure 3.6** Findings of studies with an institutional focus




*3.5.1.1 The view of corporate taxation as a CSR issue is institutionalised in the organisational field*

21 papers (40.38%) suggest that firms regard corporate taxation as a component of their CSR agenda. This conclusion is consistent with empirical evidence: a) documenting a negative relationship between a firm's CSR performance and its level of tax avoidance; b) revealing that companies disclose tax-related information.

a) Corporate tax avoidance and CSR are negatively related

15 studies have demonstrated that firms with higher CSR performance are less likely to engage in tax avoidance. The first quantitative research on the relationship between CSR and tax avoidance was conducted by Lanis and Richardson (2012) who found a positive correlation between the level of CSR disclosure and effective tax rates among a sample of Australian corporations. In further studies, they found that US firms showing a higher CSR rating were less likely to be involved in tax disputes with tax authorities (Lanis and Richardson 2015) or in tax avoidance (Lanis and Richardson 2018). These findings were corroborated by further research. Some studies conducted in the USA reveal that a firm's

CSR rating is negatively associated with various tax avoidance measures, such as book tax-differences and effective-tax rates (Hoi et al. 2013; Porter and Miles 2013), and the likelihood of corporate inversion (Huang et al. 2017). Additionally, a negative relationship between CSR performance and tax avoidance was found in different countries, such as India (Muller and Kolk 2015), Korea (Kim and Im 2017; Park 2017), Canada (Zeng 2016) and China, (Mao and Wu 2019), as well as in some cross-country comparative studies (Jones et al. 2017; Salhi et al. 2019). Nevertheless, some studies found that the negative relationship between tax avoidance and CSR is valid only for certain CSR dimensions, such as the social dimension (Laguir et al. 2015) and community-related CSR (Mohanadas et al. 2019). Overall, these studies suggest that "a firm with better CSR performance is expected to be more cautious about undertaking tax avoidance activities as this would be inconsistent with and could potentially counteract the positive effects associated with its CSR activities" (Lanis and Richardson 2015, p. 443). Finally, Shafer and Simmons (2008) and Shafer et al. (2016) reveal that tax professionals who believe more strongly in the importance of CSR judge tax avoidance schemes negatively and are, therefore, less likely to engage in or to facilitate them.

b) Evidence on corporate tax disclosure

Four studies provide evidence that tax is disclosed as if it were a CSR issue. Zummo et al. (2017) report a positive relationship between the level of corporate tax communications and CSR performance amongst a sample of Australian firms. Venter et al. (2017) employ a sample of publicly listed South African firms to report that integrated thinking is positively associated with the transparency of tax disclosures in corporate reports. McCredie and Sadiq (2019) employ a case study to investigate corporate tax communications during and after an Australian Government Senate Inquiry into corporate tax avoidance. Examinations of corporate submissions to regulatory authorities, public appearances and voluntary tax reports, reveal that communicating tax information "is now viewed proactively, positively and openly, leading to a conciliation between regulators, corporates and society" (McCredie and Sadiq 2019, p. 570). Finally, Hardeck and Kirn (2016) employ a sample of publicly listed firms from the USA, Germany and France to assess what kind of and how much tax information corporations disclose in their sustainability reports. Their findings indicate that while US and German corporations exhibit a rather stable level of tax disclosure, UK firms have experienced a significant increase in the level of tax disclosure in sustainability reports over the years (from 60% in 2007 to 80% in 2012) and, some of them explicitly frame tax payments as a contribution to society.

*3.5.1.2 The view of corporate taxation as a CSR issue is not institutionalised in the organisational field*

Conversely, 22 studies (42.31%) have revealed that companies do not consider corporate taxation as a CSR issue. This conclusion is consistent with empirical evidence a) documenting a positive relationship between a firm's CSR performance and its level of tax avoidance; b) revealing the lack of corporate disclosure.

a) Corporate tax avoidance and CSR are positively related

19 studies found that a firm's CSR performance is positively related to its level of corporate tax avoidance suggesting that more socially responsible firms are more likely to engage in tax avoidance activities. Lanis and Richardson (2013) document that Australian firms for which the tax authorities had issued an amended tax assessment by reason of tax aggressive activities show a higher level of CSR disclosure in their annual reports**.** Additionally, some scholars employ a sample of US firms to provide evidence that a firm's CSR rating from the KLD database increases significantly after it opens offshore affiliates in tax havens (Col and Patel 2019) and it is negatively related to the effective tax rate (Davis et al. 2016). These findings have been corroborated by research conducted in European countries. Preuß and Preuß (2017), Fourati et al. (2019) and Gandullia and Piserà (2019) employ an inter-country sample to document that European firms with higher CSR ratings show a lower effective tax rate. Fallan and Fallan (2019) reveal that high (low) tax-aggressive behaviours (proxied by the cash effective tax rate) is associated with a high (low) degree of voluntary environmental disclosure among a sample of publicly listed Norwegian companies. A positive relationship between CSR performance and tax avoidance has also been held valid in China (Gulzar et al. 2018; Mao 2019), Indonesia (Pratiwi and Djakman 2017), and Egypt (Abdelfattah and Aboud 2020). Huseynov and Klamm (2012) document that firms that reduce tax payments may have strong CSR performance in terms of governance, community, and diversity. Finally, some studies document that tax avoidance is positively correlated to certain CSR activities,

such as those related to workplace (Mohanadas et al. 2019) or those related to business behaviour Laguir et al. (2015).

The inconsistency between a firm's tax behaviour and its CSR performance has also been depicted in some qualitative studies (Preuss 2010; 2012; Cesaroni et al. 2020; Andrade et al. 2020). Preuss (2010; 2012) investigates the adoption of major CSR tools in MNEs headquartered in a range of tax havens, namely Bermuda and the Cayman Islands. His results reveal that the sample firms that use tax havens indeed make claims that they engage in socially responsible practices and, the adoption rates and the length of their codes of conduct were comparable with those adopted by a sample of US firms. These studies provide at least indirect, empirical evidence suggesting that a firm's tax behaviour is not necessarily aligned with its CSR, and that managers do not see any inconsistencies in engaging in tax avoidance and other social and environmental activities simultaneously. Cesaroni et al. (2020) employ a case study revealing that the firm under scrutiny adopted a code of ethics shortly after being involved in some tax disputes. Finally, Andrade et al. (2020) document the incoherence between the tax practices of a sample of Brazilian construction companies and the principles of CSR and ethics which they claim to adopt in their disclosure.

Overall, these studies suggest that companies do not view corporate tax payments as a legitimate CSR issue. Scholars have developed two lines of argumentation to explain why tax avoidance is associated with higher CSR performance. First, consistent with the risk management view of CSR, some suggest that tax avoiding companies strengthen their efforts in engaging in and communicating CSR activities to alleviate public concern and reputational risk arising from their tax behaviour (Preuss 2012b; Ylonen and Laine 2015; Lanis and Richardson 2012; Pratiwi and Djakman 2017; Sikka 2010). As clearly explained by Hoi et al. (2013, p. 2030) "firms could either reduce irresponsible CSR activities or increase responsible CSR activities to build up their CSR reputation to lessen the severity of potential negative sanctions associated with undertaking aggressive tax avoidance activities". An alternative explanation of the positive relationship between tax avoidance and CSR performance is that tax avoiding companies have more financial resources available to invest in other social and environmental issues (Davis et al. 2016; Rudyanto and Pirzada 2020). This perspective suggests that, rather than considering them complementary, companies perceive corporate tax payments and CSR as substitutes, because “neither managers nor other influential stakeholders necessarily consider the payment of corporate taxes to be the best means by which to accomplish their social responsibility goals. Moreover, under this view, paying less taxes can result in greater social benefits” (Davis et al. 2016, p. 48).

b) The lack of corporate tax disclosure

A few studies suggest that companies do not perceive corporate taxation as a legitimate component of their CSR agenda due to the lack, or the scarcity, of corporate tax disclosure. Ylönen and Laine (2015) present a case study of a firm that, despite extensive claims and commitments to sustainability and social responsibility, engages in transfer-pricing related tax avoidance and makes very few tax-related disclosures. Jenkins and Newell (2013) conducted an analysis of the CSR reports and codes of conduct of 35 leading companies listed on the FTSE4Good Index to reveal that only 13 companies mentioned tax in their reports and the majority of them simply referred to the fact that they are contributing by paying taxes that are legally due, without mentioning their corporate tax policies. Finally, Holland et al. (2016) examine how managers of a sample of UK companies, criticized for potential involvement in tax avoidance, respond to such criticism by analysing tax related disclosures in their annual reports and CSR reports. Their findings reveal that, despite the criticism, managers are reluctant to explain the basis of their tax policies.

*3.5.1.3 Factors moderating the CSR-tax avoidance relationship*

Finally, 9 studies have revealed that the extent to which the view of corporate taxation as a CSR issue is institutionalised among companies is affected by some moderating factors. These moderators can be divided into *internal* and *external*.

a) Internal moderators of the CSR-tax avoidance relationship

Two main organisation-oriented factors have been found to moderate the CSR-tax avoidance relationship: ownership and managerial characteristics and financial performance. Focusing on ownership structure, some scholars suggest that the relationship between CSR and tax avoidance is moderated by family ownership. However, the effect of this moderation is unclear. On one hand, Landry et al. (2013) found that both more and less socially responsible family firms are less likely to adopt tax aggressive behaviours than their non-family counterparts, while very high level socially responsible non-family firms are more tax aggressive. Conversely, López-González et al. (2019) employ a sample of international firms to provide evidence that "family-owned firms find in CSR actions a mechanism for tax saving, expropriating wealth to minority shareholders" (López-González et al. 2019, p, 820). With regard to the moderating role played by the characteristics of the board of directors, Vacca et al. (2020) analyse the influence of gender diversity in corporate board and report that a female CEO has a positive influence on the relationship between tax aggressiveness and CSR disclosure among a sample of publicly listed Italian firms (i.e., in tax-avoiding firms, a female CEO increases the commitment to CSR disclosure). Finally, Liu and Lee (2019) document that the ownership structure of Chinese firms affects the relationship between CSR and tax avoidance: state-owned companies with better CSR performance are less likely to avoid taxes, but non-state-owned firms with better CSR performance are more likely to avoid taxes.

Another significant factor influencing the extent to which managers perceive corporate taxation as a CSR issue is the financial performance of their firms. Watson (2015) employs a large sample of US firms to reveal that poor earnings performance tends to reduce socially responsible firms' attention to non-shareholder demands (i.e., socially responsible activities are positively associated with tax avoidance when profitability is low) and exacerbates inattention to non-shareholder demands in firms that lack social responsibility (i.e., socially irresponsible activities are positively associated with tax avoidance in low profit firms).

b) External moderators of the CSR-tax avoidance relationship

External moderating variables are external factors which influence the strength and intensity of the CSR-tax avoidance relationship. In particular, scholars have considered the characteristics of the general business environment where firms operate. These studies provide a better understanding to solve the puzzle of why there are significant variances in the relationship between CSR and tax avoidance practices across countries. Zeng (2019a) found that CSR, in general, is positively related to tax avoidance, but in countries with weak country-level governance (measured by voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption) firms with higher CSR scores engage in less tax avoidance. Similarly, Lin et al. (2017) provide evidence that the CSR-tax avoidance relationship is moderated by the strength of the institutional environments where firms operate. They reveal that Chinese firms are less likely to view tax payments as an important social obligation in jurisdictions with poor institutions, characterised by less developed market economies, insufficient legal infrastructure and professional intermediaries, less ethical awareness and commitment to social obligations, low faith in government, and low-cost consequences of misconduct. In contrast, in regions with relatively higher-quality institutions - where stakeholder monitoring of corporate affairs is more active, people are less acceptant of unethical behaviour and have more faith in government institutions and where economic costs are imposed on non-compliance by laws and social norms are higher - it is more likely that high level socially responsible firms view taxes as complementing their CSR activities and pay their fair share of taxes. Alsaadi (2020) uses a sample of firms from 15 European countries to document that the degree of financial tax-conformity in the jurisdictions where firms are headquartered influences the association between CSR and tax avoidance: firms headquartered in low financial-tax conformity jurisdictions are more likely to engage in CSR to conceal the effects of tax avoidance, as compared to firms headquartered in countries with high financial-tax conformity.

Ortas and Gallego-Álvarez (2020) focus on the moderating role of national cultural values and beliefs. They draw on Hofstede's (1980, 2001) national culture model which captures six dimensions: 1) power distance (i.e., the extent to which members of institutions and organisations within a country expect and accept that power is distributed unequally); 2) uncertainty avoidance (i.e., the degree to which a society deals with uncertainties and risk); 3) individualism (i.e., the extent to which societies prioritise individual rights over common well-being); 4) masculinity (i.e., the extent to which a society has preferences for achievement, heroism, assertiveness and material rewards for success); 5) long-term orientation; and 6) indulgence. Their findings reveal that high levels of power distance, masculinity and uncertainty lead companies not to perceive the payment of tax as a CSR obligation, while high individualism and long-term orientation have the opposite effect.

Similarly, a number of studies have documented that firms headquartered in regions with higher social capital engage significantly less in tax avoidance, compared to corporations headquartered in low-social-capital communities, since they perceive this behaviour to be inconsistent with the acceptable and appropriate community standards, values, and beliefs and, moreover, as a legitimacy risk (Hasan et al. 2016; Chircop et al. 2018; Gao et al. 2017).

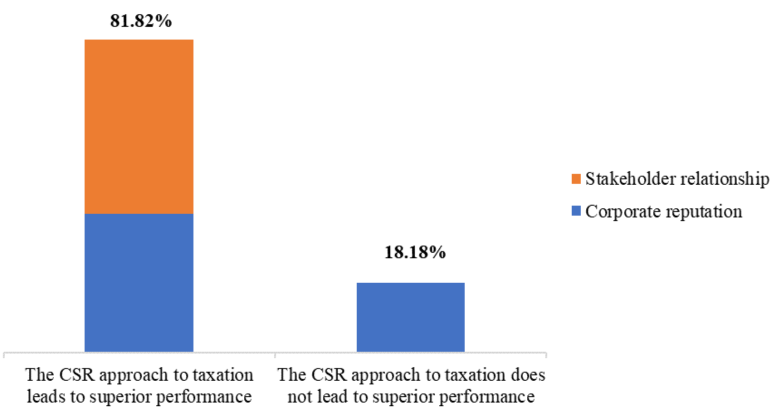
### *3.5.2 Instrumental dimension*

22 papers of the sample seek to establish connections between socially responsible tax behaviour and common corporate financial goals. These instrumental papers were categorised according to their focus on one of the mechanisms through which CSR is generally said to be beneficial for firms, as previously discussed: 1) enhancing corporate reputation; and 2) improving stakeholder relationships. As revealed by Figure 3.7, most of the instrumental analysis supports the existence of connections between the CSR approach to taxation and positive economic or financial outcomes.

#### *3.5.2.1 Corporate reputation*

Some scholars suggest that the reputational consequences of corporate tax behaviour represent the main 'business case' supporting socially responsible tax policies (Narotzky 2017). This line of reasoning reflects the resource-based view (RBV) of CSR, according to which CSR initiatives are argued to represent the means to develop specific resources and capabilities that will allow the firm to obtain a sustained competitive advantage (Hart 1995; McWilliams et al. 2006; Orlitzky et al. 2011). In particular, the benefits of CSR are, to a great extent, related to its effects on corporate reputation (Branco and Rodrigues 2006; Orlitzky et al. 2003; Lourenço et al. 2014) that is considered to be one of the most important intangible resources for a sustained competitive advantage.

**Figure 3.7** Findings of studies with an instrumental focus



Therefore, some scholars have conjectured that tax avoidance might be detrimental to a firm's financial performance because it harms corporate reputation. Conversely, firms which are socially responsible when it comes to taxation might benefit from a positive reputation. However, empirical studies report quite controversial findings on the link between corporate tax behaviour and reputational consequences.

On the one hand, some studies report that managers perceive tax avoidance as a reputational threat. Graham et al. (2014) conducted a survey of 600 corporate tax executives of US firms revealing that the potential for negative corporate reputation significantly constrains managers' incentives to implement a tax avoidance strategy. Similarly, Lavermicocca and Buchan (2015) interviewed a sample of tax managers from Australian companies and identified their concern for corporate reputation as being one of the key motivators for not taking an aggressive tax position. Managers' concern for the reputational risks of tax avoidance is also corroborated by studies documenting that firms are less likely to engage in tax avoidance when they have valuable consumer brands (Austin and Wilson 2017) and when they spend more on advertising (Mansi et al. 2020). Finally, some studies have documented that companies exhibit more responsible tax behaviour when they are scrutinized by NGOs (Dyreng et al. 2016) and the media[9] (Kanagaretnam et al. 2018), which are generally regarded as major sources of reputational risk.

Nevertheless, other studies provide opposite findings on the relationship between tax avoidance and corporate reputation. Gallemore et al. (2014) conduct a study of 113 firms subject to public scrutiny for having engaged in tax shelters and they find no evidence of effects on reputation in terms of CEO and CFO turnover, auditor turnover, loss of sales, increased advertising costs, and media attention. Baudot et al. (2020) conduct an exploratory study on 41 multinational US-based corporations and find that a higher (lower) corporate tax rate does not necessarily reflect a firm with a higher (lower) corporate reputation ranking across three recognizable rankings (e.g., *Fortune*'s 'World's Most Admired Companies', the Reputation Institute's 'Global RepTrak', and the Harris Poll's 'Reputation Quotient (RQ) Ratings". Similarly, McGowan and Mahon (2019) find no significant relationship between tax avoidance and corporate reputation from the

[9] Chapter 4 investigates the role of the media in the evolution of the debate about responsible corporate taxation.

perspective of peer companies (*Fortune*'s ratings), professional CSR evaluators (MSCI ESG) and public opinion (RepTrak ratings). Lanis et al. (2018) even document that engagement in tax avoidance improves the reputation of directors and CEOs, as proxied by an increased number of outside board seats.

To conclude, in the literature there is no clear trend indicating that more socially responsible companies in taxation will benefit from better corporate reputation, as compared to tax avoiding firms. Some companies seem not to be vulnerable to the reputation threats of tax avoidance, probably because of their celebrity status (Baudot et al. 2020) or because their stakeholders might not have access to enough information on how firms approach their tax responsibilities (Dowling 2014, p. 177) or they might not consider the payment of a fair share of tax as a relevant issue in their perception of the company (McGowan and Mahon 2019).

#### *3.5.2.2 Stakeholder relationships*

A second group of studies empirically investigates how a firm's tax behaviour affects its relationships with stakeholders[10]. These studies demonstrate that corporate tax avoidance is detrimental for stakeholder relationships, which, according to instrumental stakeholder theory, are a main source of competitive advantage. In particular, scholars have examined how corporate tax behaviour affects the relationships with two groups of primary stakeholders, which are vital for the long-term sustainability of organisations, namely consumers and investors.

The first study on the consumers' reactions to corporate tax behaviour was conducted by Hardeck and Hertl (2014) who reveal that a media report on aggressive corporate tax strategies negatively affects consumer purchase intention, and the consumer's willingness to pay, whereas a report on responsible corporate tax strategies generates the opposite effect. These results were corroborated by further evidence given by Antonetti and Anesa (2017), who document that tax avoidance (the payment of a fair share of tax) induces negative (positive) consumer reactions in terms of the perceived ethicality of the firm, attitude towards the company, purchase intentions and word of mouth. Moreover, Toder-Alon et al. (2019) report that a responsible tax behaviour generates positive reactions among consumers in terms of evaluation of the firm, level of its benevolence-motivated

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[10] In chapter 6 the role of stakeholders in influencing a firm's tax behaviour will be discussed.

CSR attribution and personality traits. Finally, Hardeck et al. (2019) show that consumers respond positively to non-tax avoidance strategies, and negatively to tax avoidance strategies.

Moving to investors, scholars suggest that tax avoidance strategies might favour the incurrence of non-tax costs and risks that could be of greater value than the tax savings (Jenkins and Newell 2013; Emerson et al. 2020; Rudyanto and Pirzada 2020) and this might explain why some studies in the financial literature found that tax avoidance is detrimental, or at least not beneficial, to a firm's value (Cloyd et al. 2003; Desai and Dharmapala 2009; Hanlon and Slemrod 2009; Abdul Wahab and Holland 2012; Brooks et al. 2016). Pardo and de la Cuesta-González (2020) conducted a survey regarding the importance of responsible tax practices in investment decisions. Their results "confirm the increasing importance given by investors to responsible corporate tax practices […] According to 87% of the respondents, the importance given to corporate tax responsibility in investment decisions will increase in the short term" (Pardo and de la Cuesta-González 2020, p. 25). Similarly, Emerson et al. (2020) found that non-professional investors with stronger individual beliefs in the importance of ethics and social responsibility are more likely to view tax-avoiding firms as less attractive than firms that pay their fair share of taxes Therefore, these studies provide evidence suggesting that firms that integrate CSR thinking and practices in their tax planning are more likely to attract investors, in particular those with stronger ethical orientation, due to the perceived reputational and institutional pressures linked with tax aggressiveness.

A group of studies has investigated investors' perception of companies that engage simultaneously in tax avoidance and in other social and/or environmental activities.

On the one hand, some studies provide evidence that equity market investors perceive CSR and tax avoidance to be inconsistent with one another in terms of maximizing long-term value (Huang et al. 2017; Ling and Abdul Wahab 2018; Inger and Vansant 2019), probably because investors are "skeptical of the potential reputational value of a firm's CSR activities when a firm is also engaging in 'socially undesirable' tax avoidance behaviors" (Inger and Vansant 2019, p. 76). On the other hand, various studies reveal that CSR or sustainability reporting can alleviate investors' negative perception of tax avoidance (Emerson et al. 2020; Rudyanto and Pirzada 2020). According to these studies, investors can accept tax avoidance if the firm espouses a CSR policy to bolster its reputation as a good corporate citizen (Emerson et al. 2020) or to inform investors that tax savings are used for other social and environmental activities (Rudyanto and Pirzada 2020).

To conclude, consistent empirical evidence suggests that more socially responsible tax behaviour can improve relationships with consumers and investors and then, according to the instrumental view of stakeholder theory, contribute to the achievement of corporate financial goals, as compared to tax avoidance strategies.

### *3.5.3 Normative dimension*

A large number of papers focus on the problem of justifying the CSR approach to corporate taxation, as opposed to tax avoidance from a normative point of view. Some scholars maintain that the CSR approach to corporate taxation has intrinsic value because it is the morally ‘right’ thing to do, whereas tax avoidance is an immoral behaviour that “contradicts being a good corporate citizen” (Zeng 2019a, p. 246). This approach reflects the ethical view of CSR, which emphasises the moral duties of companies towards society (Argandoña and von Weltzien Hoivik 2009). As noted by Moon and Vallentin (2019, p. 26), “tax avoidance defines a space of corporate discretion where tax payments (or the lack thereof) can be addressed as a moral concern and aggressive behavior, when exposed to public scrutiny, can lead to accusations of moral transgression. In other words, it defines a space where taxation can be addressed as a matter of CSR”.

The payment of taxes is perceived as a moral phenomenon since “it is necessary for sustaining society, liberty and other important human values” (Gribnau and Jallai 2019, p. 349). Paying taxes is “not only a legal obligation but can also be seen as an ethical obligation, namely contributing (financially) to society” (Gribnau 2015, p. 240). The payment of a fair share of tax is regarded as part of the implicit social contract between corporate citizens and the state since it is one of the fundamental ways in which corporations engage with broader society (Jenkins and Newell 2013; Munisami 2018; Payne and Raiborn 2018). Indeed, corporations “are expected to enable governments to provide precisely those goods and services that serve the collective interests of society” (Moon and Vallentin 2019, p. 45). Few scholars contend that corporate taxation is a legal and not a moral issue. Then, how companies conduct their tax affairs should not be a function of CSR or any other soft law concepts but there should be clear legal rules and principles that inform companies what is legitimate and what is not (Panayi 2015; Österman 2019). They argue that the problem of tax avoidance cannot be removed solely by voluntary CSR engagement (Darcy 2017; Jenkins and Newell 2013) because it is "utopian to believe that self-imposed norms of CSR could be effective" (Dietsch 2011, p. 341), given that both MNEs and tax practitioners are under pressure to engage in or promote tax avoidance schemes.

Several arguments have been developed to support the view that tax avoidance is morally wrong (Christensen and Murphy 2004; De Colle and Bennett 2014; Windsor 2017): it limits the governmental ability to provide public goods and services (e.g., education, national defence, public health care, law enforcement, public transport, etc.) in particular to the less well-off, the elderly and the vulnerable; it transfers a large share of the tax burden to individual taxpayers and SMEs; it has harmful impacts on the facilitation of human rights (Darcy 2017); it provides MNEs with inappropriate tax advantages over their nationally based competitors; it affects developing countries' ability to reduce poverty; it undermines the integrity and the equity of the existing tax system; it causes harmful market distortion; it enables companies to become economic free-riders that enjoy the benefits of corporate citizenship (e.g., education, healthcare, transport, security, legal system, subsidies and support for corporations and public good) without accepting the costs.

Moreover, some scholars have applied various normative ethical theories for a more detailed and philosophically grounded assessment of the immorality of tax avoidance, including *Utilitarianism* (Fisher 2014; de Colle and Bennett 2014; Payne and Raiborn 2018; Preuss 2012b), *Kantianism* (Preuss 2012b; Lenz 2020;), *Virtue Ethics* (Preuss 2012b; West 2018) and *Rawls theory of justice* (Payne and Raiborn 2018). Reference should be made to chapter 2 for a more detailed discussion of these studies.

Furthermore, some scholars have drawn on *normative stakeholder theory* to argue that the payment of a fair share of tax is a moral obligation that companies owe to their stakeholders (Huang et al. 2017; Hillenbrand et al. 2019). In particular, scholars suggest that the "wider community that is ultimately served by government expenditure (on health, security, infrastructure and welfare) is a significant stakeholder" (West 2018, p. 1146), and, then, failing to pay a fair share of taxes runs against its interests and needs. Similarly, Huang et al. (2017) contend that paying a fair share of tax is an obligation that companies owed to the government to help fund public goods and welfare. Hillenbrand et al. (2019, p. 405) conclude their study on stakeholder expectations on tax by positing that "to safeguard business and society from damaging perceptions of irresponsible corporate tax approaches, it could be useful, in the future, to employ a framework of corporate tax approaches that reflects the perceptions and expectations of stakeholders".

Additionally, some scholars ground the view that the CSR approach to corporate taxation is the right path to take on *corporate culture theory*, according to which all decisions of the firm should reflect a shared belief of the right corporate behaviour (Kreps 1996; Hermalin 2001). Some scholars view CSR as a facet of corporate culture, namely as "the shared belief within the organisation about the right course of action that takes into account the economic, social, environmental and other externalized impacts of the company's activities" (Hoi et al. 2013, p. 2028). Corporate culture theory posits that a firm should not simultaneously engage in activities that might have opposite effects on society in order not to undermine its culture (Col and Patel 2019, p. 1035). From this perspective, corporations are advised not to engage simultaneously in tax avoidance and in other CSR activities (Hoi et al. 2013; Col and Patel 2019; Jones et al. 2017; Preuß and Preuß 2017). As argued by Christensen and Murphy (2004), "it is not possible to be ethical in one area of business conduct and to act otherwise in another area, and companies that function in this way reveal a major disconnect in their core organisational values". Sikka (2010) highlights that claiming to be ethical and socially responsible and simultaneously indulging in tax avoidance reveals the development of two cultures in the same corporation: "one promises ethical conduct to external audiences and this is decoupled from the organisational practices which are geared to improving profits by avoiding and evading taxes" (Sikka 2010, p. 165). The persistence of these contrasting cultures is perceived as an "organised hypocrisy" which, once exposed by the media, NGOs or whistle-blowers, "might become a liability and can threaten the survival and welfare of the company" (Sikka 2010, p. 157).

Moreover, a small group of scholars has framed corporate taxation as an urgent sustainability issue (Chaffee and Davis-Nozemack 2017; Birds and Davis-Nozemack 2018; Gribnau and Jallay 2019) to highlight the impact of corporate tax strategies on sustainable development. The term 'sustainable development' was defined in 1987 by the World Commission on Economic Development (WCED) in its famous report "*Our*

*Common Future*", according to which sustainable development "meets the needs of the present without compromising the ability of future generations to meet their own needs". The sustainability-development approach demands a significant contribution from companies to preserve common interests and resources for the benefits of future generations. Sustainability is viewed as an "excellent lens for formulating tax strategy because it acknowledges and addresses the actual consequences and externalities of tax avoidance" (Chaffee and Davis-Nozemack 2017, p. 1478). Birds and Davis-Nozemack (2018) argue that tax avoidance might erode some common resources upon which efficient and fair social relationships are based and that need sustainable conservation: 1) the '*social commons'*, by depriving governments of the financial support to deliver vital public goods and services; 2) the '*regulatory commons*', by threating those mutual expectations, norms, and understandings that are shared between firms and tax authorities; 3) the '*organisational commons*', by creating an organisational culture that undermines the shared space within organisations that relies on a mutually shared social capital upon which trust, honesty, and integrity are based. Moreover, corporate taxation is seen as an important precondition for the implementation of the 2030 Agenda for Sustainable Development Goals (SDGs) adopted in 2015 by all United Nations (UN) Member States. Indeed, corporate tax avoidance might negatively affect those SDGs, such as ending poverty and hunger (SDG 1 and SDG 2), developing economic infrastructure (SDG 9) or reducing inequality (SDG 10), whose accomplishment requires substantial public revenues (Gribnau and Jallay 2019).

Finally, few scholars contend that the payment of a fair share of tax might not be the best means by which companies accomplish their ethical responsibilities. Indeed, paying taxes to the state "can only increase social welfare if governments really use taxes to pay for the benefit of the community" (Rudyanto and Pirzada 2020). Therefore, if a company believes it is more efficient than governments in allocating resources for social welfare, it may decide to avoid tax and use tax savings to carry out its own CSR activities (Davis et al. 2016). From this perspective, stakeholders might have a positive perception of tax avoidance, as long as tax savings are invested in innovation, infrastructure, job creation and other basic socially responsible activities, such as the provision of affordable goods and services to consumers or fair wages to employees (Dowling 2014, p. 180; Hardeck and Kirn 2016; Baudot et al. 2020).

## 3.6 Conclusions and research opportunities

This SLR has revealed how corporate taxation has recently become a hot topic in the CSR academic debate. This trend confirms that CSR is a dynamic concept with undefined boundaries, and that the scope of CSR practices can vary over time. A growing number of scholars have focused on understanding how companies should approach their tax activities in order to be perceived as socially responsible and contribute to the well-being of society. On the other hand, various argumentations have been provided as justifications for the CSR approach to corporate taxation, over tax avoidance. These argumentations were mapped and categorised according to their institutional, instrumental or normative logic.

From the review, it clearly emerges that many normative justifications support the intrinsic value of the CSR approach to taxation, which seems to be grounded in the most influential ethical theories, as well as in normative stakeholder theory, corporate culture theory and in the sustainable development construct. Conversely, major disagreements exist regarding instrumental and institutional studies. Studies with an instrumental focus consistently document that corporate tax policies can affect a firm's relationships with primary stakeholders such as customers and investors, while there is a lack of clarity about the link between a firm's tax behaviour and its reputation. Instead, studies with an institutional logic have provided mixed findings about the extent to which companies consider corporate tax payments as part of their CSR agenda. Therefore, major disagreements exist about whether companies regard the CSR approach to corporate taxation as legitimate.

In conclusion, despite the increased coverage of this topic, there is a considerable amount of work that remains to be done to advance the field and contribute towards a better understanding of the relevance and significance of CSR in the context of corporate taxation. Several intriguing avenues for future research have emerged from this systematic literature review, as delineated below.

a) Institutional focus

Reviewing the literature, mixed evidence emerged on whether companies perceive the payment of tax as a substitute or a complement to CSR. Furthermore, this issue has been mostly addressed using quantitative methods (e.g., investigating the relationship between

CSR performance and tax avoidance) that provide only indirect evidence of how companies frame the payment of tax. Understanding how companies perceive their tax responsibilities in the context of CSR is particularly important because firms are such powerful and visible actors that they can influence "how these issues are understood and, subsequently, are acted upon in society" (Ylönen and Laine 2015, p. 6).

Consequently, there is an urgent need for qualitative research that explores how firms perceive the interplay between CSR and corporate taxation more directly. In particular, there is a need for studies that explore how perceptions and beliefs about a suitable approach to corporate taxation have changed over the years. For instance, by using a case study, researchers could conduct a content analysis of corporate tax disclosure and gain deeper insights into the evolution of the framing of corporate tax payments. Additionally, further research could investigate the impact on corporate tax behaviour of some initiatives aimed at promoting a transition towards more socially responsible tax practices by bringing institutional pressures on companies. The main tax responsibility initiatives include the Fair Tax Mark, a UK non-profit social enterprise that certifies companies that "pay the right amount of corporation tax at the right time and in the right place" (Fair Tax Mark 2016), the B Team's responsible tax principles, which offers a framework of best practices in the areas of tax management, stakeholder engagement, and reporting (B Team 2018), and the new GRI Standard on tax disclosure (GRI 2019)[11]. Finally, further research with an institutional focus might explore new ways to operationalise and measure the extent to which companies are socially responsible when it comes to tax, going beyond measures typically found in tax avoidance literature, such as the effective tax rate.

b) Instrumental focus

Papers with an instrumental focus have mainly concentrated on explaining the outcomes of tax avoidance, in terms of reputational risks and stakeholder relationship. Further research could explore more in-depth the reputational consequences of tax avoidance, given that literature so far has yielded contrasting findings. Then, there is the need to understand better under which conditions tax avoidance harms corporate reputation. For instance, the reputational consequences of the media 'naming and shaming' a firm over its tax behaviour could be further investigated.

[11] These initiatives are discussed in chapter 5.

Additionally, there is a lack of empirical research on the financial consequences of a positive CSR approach to corporate taxation. As noted by Moon and Vallentin (2019), taxation has been mainly addressed as a negative CSR issue, i.e., as a matter of corporate social *irresponsibility*. Therefore, the positive outcomes that a firm may obtain from a responsible approach to tax have not been investigated yet. To fill this gap, scholars may explore to what extent companies exhibiting higher levels of tax transparency benefit from a better reputation or gain more opportunities to deal with stakeholders, such as consumers, employees or investors.

c) Normative focus

Many papers have provided normative justifications for a CSR approach to corporate taxation, as opposed to tax avoidance and aggressive tax planning. However, at least two suggestions for further research can be put forward. First, only few papers have framed corporate taxation as a sustainability issue. In this regard, further studies could explore whether a CSR approach to corporate taxation may lead to superior sustainability outcomes, in terms of economic, environmental and social impacts. Additionally, scholars could examine the role of corporate tax responsibility in achieving the 2030 Agenda for SDGs. A second intriguing path for future research on the normative foundations of a CSR approach to corporate taxation is to explore how the responsibility to pay tax is shaped and understood within the different conceptions of corporate citizenship (Aßländer and Curbach 2014; 2017; Néron and Norman 2009). The payment of a fair share of tax is certainly a basic duty of corporate citizens, but further conceptual work is needed to understand to which communities corporations owe a duty to contribute, since globalisation and digitalisation of business models allow MNEs to be everywhere and nowhere at the same time.

# 4.

# RESPONSIBLE CORPORATE TAXATION: AN ISSUE OF IMPLICIT OR EXPLICIT CSR?

## 4.1 Introduction

The systematic literature review presented in chapter 3 has revealed that a growing number of scholars have investigated the relationships between CSR and corporate taxation. In particular, many arguments have been developed to justify a CSR approach to corporate taxation and, consequently, the reasons why companies should implement more socially responsible tax practices.

This chapter aims to contribute towards a better understanding of the meaning of, and the implications deriving from, the view that corporate taxation is a CSR issue. In particular, this chapter moves from the premise that for a social issue to be properly understood in the context of CSR, it is necessary to investigate whether that issue is considered as an area of *explicit* or *implicit* CSR (Matten and Moon 2008). Indeed, the appropriate configuration of CSR can have broad implications with regard to what companies are expected to do and to communicate in order to maintain the legitimacy to operate in society (Matten and Moon 2020). While under the implicit CSR approach the social responsibilities of businesses are defined by mandatory requirements as codified in the legal framework, under the explicit CSR model businesses are expected to self-regulate their behaviour and to implement programmes and initiatives for the well-being of society on a voluntary basis.

In the literature, there are major disagreements about the appropriate way to frame corporate taxation under the framework of implicit and explicit CSR. On the one hand, some scholars consider corporate taxation as an area of implicit CSR, placing the primary responsibility for ensuring a fair and efficient tax system on governmental institutions and the 'sole' responsibility of operating within the legal boundaries on companies (e.g., Freedman 2006; Panayi 2015). On the other hand, other scholars highlight how the inappropriateness of the current legal framework demands that companies do their part when it comes to responsible taxation, by self-restraining from aggressive and morally dubious tax minimization strategies (Avi-Yonah 2014; Lenz 2020) and adopting practices, standards and policies for proving and demonstrating their commitment to being responsible taxpayers (Hillenbrand et al. 2019; De la Cuesta-González and Pardo 2019).

The purpose of this chapter is to contribute towards a better understanding of which CSR approach is regarded as appropriate in the area of corporate taxation and how this configuration has changed over the years. In order to address this question, this work conceives of the media as a lens that mirrors how CSR is perceived by the public and practiced by companies (Grafström and Windell 2011; Frig et al. 2018; Lee and Riffe 2019) and employs a content analysis of news articles on corporate tax-related issues, published by eight major UK newspapers (the *Financial Times*, *The Guardian, The Times*, *The Daily Telegraph, The Independent, The Sun, The Daily Mail and The Mirror*) in the period between 1999 and 2018. The content analysis was based on a set of indicators of explicit and implicit CSR, deductively derived from previous literature. By so doing, this work extends our knowledge of corporate taxation as a CSR issue, offering a more nuanced understanding of the evolution of the legitimate CSR configuration to deal with corporate taxation, as well as of the mechanisms and the dynamics which have facilitated, and constrained, the transitions from one approach to another.

## 4.2 The framework of implicit and explicit CSR

The dominant version of CSR is informed by the historically grown institutional frameworks that shape a national business system (Whitley 1997) – comprising specific constellations of political, financial, educational, and cultural systems – and by the action of (coercive, mimetic, and normative) isomorphic pressures in an organisational field (Matten and Moon 2008; Jamali and Neville 2011). The distinction between the implicit and the explicit version of CSR was developed by Matten and Moon (2005; 2008) to capture and explain differences in the approach to business social responsibility between Europe and USA. The authors define explicit CSR as "corporate policies that assume and articulate responsibility for some societal interests" (Matten and Moon 2008, p. 409), and implicit CSR as the "corporations' role within the wider formal and informal institutions for society's interests and concerns" (Matten and Moon 2008, p. 409). Implicit and explicit CSR are not presented as mutually exclusive, but rather as ideal and competing approaches (Matten and Moon 2020, p. 17) that may co-exist in the same institutional setting (Kim et al. 2013; Blindheim 2015), in the same corporation (Angus-Leppan et al. 2010) and even in the same CSR initiative (Brown et al. 2018).

Although under the model of implicit and explicit CSR firms may address the same kind of social issues, significant differences exist among these approaches, mainly in terms of what companies are required to do and to communicate, to be considered socially responsible and to maintain the legitimacy to operate in society (Matten and Moon 2020). Matten and Moon (2020) argue that the appropriate CSR configuration that companies should adopt is shaped by the institutional relationships with the key actors that corporations depend on for legitimacy, namely core stakeholders, societies and regulators.

Under the model of explicit CSR, social issues are primarily managed at corporate level through mechanisms of self-regulation. In other terms, companies are attributed the responsibility for addressing social issues, by listening and taking into account the needs and expectations of their stakeholders. Therefore, corporate social policies and activities result from voluntary, deliberate, and often strategic decisions and are communicated and promoted using the typical language of CSR (Young and Marais 2012; Thorne et al. 2017). On the other hand, under the model of implicit CSR, social issues are mainly managed at the level of governmental and intergovernmental institutions. Thus, corporate social policies are not conceived as an area of corporate discretion, but rather as a reaction to, or a reflection of, what is collectively considered as socially responsible, as stemming from mandatory norms and rules codified in the legal framework. For this reason, firms practising implicit CSR conceive social policies and programmes as "part of what corporations do as an implicit aspect of doing business" (Blindheim 2015, p. 54) and, consequently, do not communicate these initiatives using the language of CSR. Scholars have reported that while implicit CSR tends to be prevalent in coordinated market economies, the explicit configuration is more likely to dominate liberal market economies (Matten and Moon 2008; Jackson and Apostolakou 2010; Habisch et al. 2011; Young and Marais 2012; Thorne et al. 2017; Kumar et al. 2019).

It is important to state that the implicit and explicit CSR framework is not static and transitions from one configuration to another can occur over time. Related to this point, Matten and Moon (2020) conceptualise two phenomena: the *implicitization* of CSR, i.e., "processes by which formal and informal institutions integrate into their norms and rules expectations and obligations for corporations derived from explicit CSR policies, strategies, and practices" (Matten and Moon 2020, p. 20) and the *explicitization* of CSR, i.e., "the inclusion and transformation of habitual practices that had been unheralded by the respective corporations within CSR and wider corporate policy and strategy (reflecting their erstwhile implicit status)" (Matten and Moon 2020, p. 19). Corporations' transition from one version of CSR to another is seen as a strategic move to maintain the legitimacy to operate in society against the institutionalisation of new social expectations (Hiss 2009; Young and Marais 2012; Carson et al. 2015). Scholars have revealed that the last decades have been characterised by global institutional forces which have pushed towards more explicit forms of CSR (Matten and Moon 2008; Hiss 2009; Höllerer 2013; Carson et al. 2015).

As will be discussed in the following section, there are still major disagreements about the most appropriate configuration of CSR to deal with corporate taxation, both in the academic literature and in the corporate world.

## 4.3 Responsible corporate taxation: an issue of implicit or explicit CSR?

For the purpose of this chapter, CSR is defined following Matten and Moon (2008, p. 405), as including "policies and practices of corporations that reflect business responsibility for some wider societal good". Given this definition, the payment of corporate tax undeniably represents a CSR issue due to the broad and significant implications it has for the well-being of societies and local communities. For instance, Lanis and Richardson (2015, p. 442) argue that "the CSR obligation is that a firm should pay its fair share of tax lawfully collected by governments in whichever country it is operating". Christensen and Murphy (2004, p. 37) view corporate taxation as "the most fundamental way in which private and corporate citizens engage with broader society". Moreover, the broad function of CSR (i.e., to enhance societal good) is perfectly consistent with the primary functions of corporate taxation: raising revenue to fund essential governmental functions, such as the provision of public goods and services (e.g., healthcare, education, infrastructure, national defence, etc.), and reducing the unequal distribution of income and wealth in society (Avi-Yonah 2006).

Nevertheless, there is considerable ambiguity regarding whether corporate taxation should be framed and approached under the model of implicit or explicit CSR. On the one hand, corporate taxation is interpreted as being an area of core implicit responsibilities. Governments are then argued to have “the ultimate responsibility for creating a tax system which gives content to the obligation to pay tax” (Freedman 2006, p. 385) and there is no space for voluntary policies and programmes or corporate self-restraint. As a consequence, the responsibility to pay corporate tax stems from legal requirements defining all the elements (e.g., the corporate income tax base, the tax rate, the tax nexus with a jurisdiction, etc.) to institutionally determine a reasonable amount of corporate tax. Responsible companies are ‘only’ expected to abide by the laws and regulations. From this perspective, tax-related problems (such as tax avoidance) cannot be resolved solely by voluntary CSR engagement (Darcy 2017; Jenkins and Newell 2013) because it is “utopian to believe that self-imposed norms of CSR could be effective” (Dietsch 2011, p. 341) in this area. Hence, when some business choices and strategies related to taxation have become universally unacceptable, “rules or at least guidance should be put in place by international organisations such as the OECD to abolish them; and countries should abolish them” (Panayi 2015, p. 556).

Conversely, other scholars contend that mere compliance with the law may not be enough to ensure responsible tax behaviour, given the inabilities or unwillingness of governments to make companies pay their fair share of tax (Gribnau 2015). For this reason, they recommend businesses practise and exhibit a more explicit approach to responsible corporate taxation, including the need to self-restrain from tax strategies that, although legal, have a negative impact on society (Avi-Yonah 2014; Bird and Davis-Nozemack 2018; Moon and Vallentin 2019), to arrange their tax policies by listening and taking into account the expectations of stakeholders (Hillenbrand et al. 2019; Hardeck et al. 2019; Pardo and de la Cuesta-González 2020) and to voluntarily disclose tax-related information to the public (Hardeck and Kirn 2016). Moreover, a more explicit CSR approach to corporate taxation would be supported by a number of business cases, primarily the chance to gain better reputation (van Eijsden 2013).

This on-going debate about the most appropriate CSR configuration to deal with responsible corporate taxation is also manifest in the way in which companies frame the payment of corporate tax and communicate their tax responsibilities. In order to gain anecdotal evidence related to this point, reference may be made to how companies have responded to the UK mandatory requirement to publish an online report (named 'tax strategy') containing information related to their approach to tax [12]. On the one hand, some companies communicate their tax responsibilities in a way which reflects the model of implicit CSR (Table 4.1). These companies conceive their tax-related obligations as being limited to compliancy with tax laws and paying the amount of tax legally due. On the other hand, as can be seen from Table 4.2, other companies clearly interpret, and approach, corporate taxation as an area of explicit CSR. Consequently, in their tax strategies they refer to their voluntary policies and initiatives related to taxation and make ample use of the language of CSR to communicate their commitment to paying tax.

To summarize, both in the academic literature and in business practice there seems to be considerable uncertainty regarding how the issue of corporate taxation is positioned within the framework of implicit and explicit CSR.

Therefore, the research question of this chapter is the following: *what is the appropriate CSR configuration for dealing with corporate taxation? How has this configuration changed over the years?*

**Table 4.1** Examples of companies with an implicit CSR approach to corporate taxation

| **Company** | **Statement from the 'UK Tax Strategy'** |
|---|---|
| Alphabet | We are committed to compliance with tax laws and practices. We continuously monitor changes to tax legislation, ensuring that we take advice where appropriate from professional advisers. (https://abc.xyz/investor/static/pdf/uk-tax-strategy.pdf?cache=2bad721) |
| Apple | Taxes play a necessary and important role in our society and Apple believes every corporation has a responsibility to pay all the taxes they owe. As the largest taxpayer in the world we comply with the law wherever we operate and pay taxes on everything we earn around the world. (https://www.apple.com/legal/more-resources/docs/uk-tax-policy.pdf) |
| Facebook | "Facebook's approach to tax is to ensure compliance with all tax laws in the jurisdictions where we operate. As a multinational company, Facebook |

[12] According to the Finance Act 2016, large companies (i.e., companies with a turnover of over £200 million or a balance sheet of over £2 billion) operating in the UK must publish a document in their website called 'tax strategy', which must include information about: the approach to risk management and governance; the attitude to tax planning; the level of acceptable tax risk; the approach towards tax authorities; any other relevant information relating to taxation. See https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy.

| | |
|---|---|
| | takes its tax obligations seriously and we pay all taxes due in every country as required". (https://investor.fb.com/corporate-governance/?section=governancedocuments) |
| Nike | "We seek to identify, evaluate, monitor, and manage tax risks to ensure that we comply in full with our legal obligations. Additional assistance from external advisors is sought when required. We are committed to compliance with tax laws and practices. We continuously monitor changes to tax legislation, ensuring that we take advice where appropriate from professional advisers". (https://www.nike.com/gb/help/a/uk-tax-strategy) |
| Sainsbury | "We are not prescriptive in terms of the levels of acceptable risk, however we comply with legal requirements in a manner that ensures we pay the required amount of tax". (https://www.about.sainsburys.co.uk/~/media/Files/S/Sainsburys/documents/about-us/sainsburys-uk-tax-strategy-march-2018.pdf) |

**Table 4.2** Examples of companies with an explicit CSR approach to corporate taxation

| **Company** | **Statement from the 'UK Tax Strategy'** |
|---|---|
| AngloAmerican | "We take a responsible approach to the management of taxes, supporting the principles of transparency and active and constructive engagement with our stakeholders to deliver long term sustainable value". (https://www.angloamerican.com/~/media/Files/A/Anglo-American-Group/PLC/investors/annual-reporting/2018/tax-strategy-dec-2018.pdf) |
| GSK | "We understand our responsibility to pay an appropriate amount of tax and we fully support efforts to ensure companies are appropriately transparent about how their tax affairs are managed". (https://www.gsk.com/media/2983/tax-strategy.pdf) |
| Repsol | "This Corporate Tax Policy is based on managing tax affairs applying good tax practices and acting transparently, paying taxes in a responsible and efficient manner and promoting cooperative relations with governments, avoiding significant risks and unnecessary disputes". (https://www.repsol.com/imagenes/global/en/uk_tax_strategy_2018_tcm14-119534.pdf) |
| Shell | "The payment of taxes is a central link between Shell and the countries and communities where we operate. It is a vital part of our contribution to national economies and people's lives." (https://www.shell.com/sustainability/transparency/shells-approach-to-tax.html) |
| Unilever | "The tax we pay is a critical part of our commitment to grow in a sustainable, responsible and socially inclusive way for the benefit of all stakeholders" (https://www.unilever.com/sustainable-living/what-matters-to-you/tax.html) |

## 4.4 The role of the media in the construction of CSR

As mentioned above, this chapter works on the assumption that the dominant and socially acceptable perspective on the appropriate CSR approach to deal with corporate taxation is mirrored in the news media. A wealth of studies has corroborated the view that the way in which CSR is interpreted and practised by companies and their stakeholders is reflected in the way in which this concept is framed and discussed in the media.

Indeed, based on previous literature, the media serve four main functions: 1) media as infomediaries between firms and their stakeholders; 2) media as a source of corporate reputation; 3) media as a propagator of organisational legitimacy; and 4) media as an agenda-setter in the business world. Consequently, each of these functions contribute towards justifying the use of media as a lens which reflects the dominant CSR configuration for dealing with corporate taxation.

### *4.4.1 Media as infomediaries between firms and their stakeholders*

First of all, the media serves as a particular stakeholder to the firm. In stakeholder theory literature, media are defined as '*secondary*' (Clarkson 1995) or '*derivative*' (Phillips 2003) stakeholders. *Secondary* stakeholders, which are juxtaposed to *primary* stakeholders, are "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival" (Clarkson 1995, p. 107). Similarly, *derivative* stakeholders, which are juxtaposed to *normative* stakeholders, are "groups whose actions and claims must be accounted by managers due to their potential effects upon the organisation and its normative stakeholders" (Phillips 2003, p. 31).

Common to these notions is the assumption that the media do not have a formal contract bond with the organisation. Therefore, companies do not have a moral obligation to advance the well-being of the media as they would with normative stakeholders (e.g., shareholders, customers, investors, employees) and the media are not essential for a firms' survival, as primary stakeholders. However, managerial attention to the media is required. Indeed, the media have the ability to affect, in a positive or negative sense, the organisation, by mobilising other stakeholders in favour of, or in opposition to, an organisation and putting firms under pressure to respond to stakeholder requests (Eesley and Lenox 2006). As a result, they can cause significant damage to a corporation.

In particular, the media act as infomediaries (Deephouse and Heugens 2008), focusing on the collection and distribution of information about companies and social issues. In this way, the media monitor corporate activities and highlight actions that would otherwise remain unknown and undetected, to mitigate the information asymmetry between firms and their stakeholders (Dubbink et al. 2008; Bednar et al. 2013). Therefore, what many stakeholders know about firms and their activities is mediated by the media, which may drive them to take actions against the firms. Empirical studies have revealed that media coverage of corporate wrongdoing can increase the potential for stakeholder reactions and financial risks (Pollock and Rindova 2003; Bansal and Clelland 2004; Roulet 2015; Kölbel et al. 2017; Clemente and Gabbioneta 2017; Carberry et al. 2018; Barnett 2014) and discourage socially irresponsible practices (Tang and Tang 2013; Jia et al. 2016).

### *4.4.2 Media as a source of corporate reputation*

Second, the media are considered a major source of corporate reputation.

Despite existing debate on the precise definition of corporate reputation, Fombrun's (1996, p. 72) definition of a firm's reputation is generally considered one of the most influential (Phillips et al. 2019), according to which reputation is the "perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals". This definition suggests that corporate reputation is a general organisational attribute that reflects the extent to which external stakeholders see the firm as 'good'. Fombrun and Shanley's (1990) seminal model on corporate reputation hypothesises that a firm's current reputation is related to various types of signals concerning companies that the public has received, whether directly from the firm or via other information channels, such as the media.

By affecting the level of scrutiny to which firms are exposed and the general public's awareness of firms and their operations, the media can influence the assessment of a firm's reputation. Media reputation, defined as "the overall evaluation of a firm presented in the media" (Deephouse 2000, p. 1099) is considered a "specific form of organisational reputation with positive outcomes similar to those of a favourable organisational reputation" (Zavyalova et al. 2017, p. 463). Consequently, news media influence a firm's reputation (Wartick 1992; Carroll and McCombs 2003; Brammer and Millington 2005; Meijer and Kleinnijenhuis 2006; Carroll 2009; Einwiller et al. 2010; Kiousis et al. 2007) and, ultimately, can lead to higher financial performance (Kiousis et al. 2007).

The existing literature has identified a close relationship between corporate reputational capital and CSR. A stream of research draws on the resource-based view (RBV) to suggest that the benefits of CSR practices are, to a great extent, related to their effect on corporate reputation which allows companies to improve relations with external actors (Brammer and Millington 2005; Branco and Rodrigues 2006; Orlitzky et al. 2003; McWilliams et al. 2006; Lourenço et al. 2014). According to the RBV, the firms' abilities to obtain a sustainable competitive advantage over their rivals depends on their internal resources and capabilities (Wernerfelt 1984; Barney 1991; Grant 1991). Resources, which may include tangible or intangible assets (Grant 1991) should be valuable, rare, inimitable, and non-substitutable in order to be sources of competitive advantage (Barney 1991). From this perspective, engaging in social and environmental practices allows firms to develop specific resources and capabilities that can be sources of competitive advantage (Hart 1995; Bansal 2005; McWilliams and Siegel 2011; Grewatsch and Kleindienst 2017).

The RBV recognizes the importance of corporate reputation as a firm-specific intangible resource that contributes to a firm's sustainable competitive advantage through differentiation (Barney 1991; Grant 1991; Hall 1992; Roberts and Dowling 2002). Deephouse (2000, p. 1099) argues that a favourable media reputation has the resource properties of value, imperfect imitability, non-substitutability, and rarity.

Therefore, the RBV advises management to achieve a positive media exposure to enhance the reputation of their firms and improve financial performance. Management should be aware that unfavourable media coverage might lead to costly reputational penalties (Ghoul et al. 2019), after all, "reputation is a fragile resource; it takes time to create, it cannot be bought, and it can be damaged easily" (Hall 1992, p. 143).

Some empirical studies have built on corporate reputation to explain why the media can facilitate socially responsible business practices. Gao (2006) provides evidence that news media attention exerts statistically and economically significant pressure on companies to increase their charitable giving. Similarly, Zyglidopoulos et al. (2012) reveal that firms respond to increased media attention by improving their CSR performance. Additionally, Dyck and Zingales (2002) find a strong positive correlation between the diffusion of the press and companies' responsiveness to environmental issues. Further studies document that firms' incentives to engage in CSR are stronger where the media have more freedom (i.e., the ability of the media to operate in an unfettered capacity) (Ghoul et al. 2019; Hartmann and Uhlenbruck 2015).

### *4.4.3 Media as propagator of organisational legitimacy*

Third, the media are conceived as a major propagator of organisational legitimacy.
In his seminal paper, Suchman (1995, p. 574) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions".
Legitimacy theory suggests that organisations do not have an inherent right to exist, but rather that they "exist to the extent that the particular society considers that they are legitimate, and if this is the case, the society 'confers' upon the organisation the 'state' of legitimacy" (Deegan 2002, p. 292). Legitimacy is vital for the survival and growth of an organisation "as it is a precondition for the continuous flow of resources and the sustained support by the organisations' constituents" (Palazzo and Scherer 2006, p. 71). At any given time, there might be a gap between business performance and societal expectations (Sethi 1979; Wartick and Mahon 1994). These incongruences between the society's value system and the firm's value system might be seen as a breach of the social contract between business and society and the organisation's license to operate might be revoked (Dowling and Pfeffer 1975, p. 122).
From this perspective, CSR has been conceptualised as a legitimacy-seeking strategy to ensure that the expectations of society for appropriate business behaviour are fulfilled (Beddewela and Fairbrass 2016; Palazzo and Scherer 2006; Du and Vieira 2012). In particular, CSR disclosure is seen as a legitimisation tool to manage social pressures and show congruence with the expectations of society (Neu et al. 1998; O' Donovan 2002; Deegan 2002; Cho and Patten 2007).
Suchman's (1995) definition points out that organisation legitimacy is not an objective fact, but rather a conferred status "that is judged and controlled by others rather than by legitimating organisation" (Chen and Roberts 2010, p. 546). The sources of legitimacy

are the organisations' evaluators, which are "the internal and external audiences who observe organisations and make legitimacy assessments" (Ruef and Scott 1998, p. 880).

Management scholars recognise the media as one of the most significant actors in the legitimation process (Hellgren et al. 2002; Lok 2010; Barros 2014; Roulet 2015). As infomediaries that collect and distribute information about companies and social issues (Deephouse 2009), the media are "part of the institution-building process" (Bansal 2005, p. 203) and play a crucial role "in constituting senses of legitimacy/illegitimacy around contemporary organisational phenomena" (Vaara et al. 2006, p. 792). In other words, the media act as "carriers of prevailing institutional logics […] by disseminating information that accords with these logics" (Bednar 2012, p. 131) driving support for existing belief systems or spreading and strengthening the pressures against them (Roulet 2019, p. 1436). Researchers have consistently employed content analysis of news media to measure and operationalise organisational legitimacy (Deephouse 1996; Aerts and Cormier 2009; Vergne 2010; Etter et al. 2018). Bitektine (2011, p. 154) introduced the term 'media legitimacy' to refer to "legitimacy as reflected in communications through printed media, TV, or radio broadcasts". In influencing public perceptions of the desirability and appropriateness (i.e., legitimacy) of firms and management practices, including the configuration of CSR as implicit/explicit, the media perform a social constructivist role, i.e., they assist in the "construction of social realities and consequently draw public support – or disapproval – toward existing systems of beliefs and values" (Roulet 2015, p. 394).

Thus, being a propagator of organisational legitimacy, the media contribute to determine the implementation of CSR practices among companies. For instance, Bansal (2005) employs a sample of 45 Canadian firms from the oil and gas, mining, and forestry industries, to show that media attention regarding a company and its environmental issues is positively associated with corporate sustainable development, especially in the early stages. Furthermore, drawing on legitimacy theory, a voluminous stream of empirical research in the social and environmental accounting literature, has revealed that the CSR issues attracting the highest level of media coverage are also the issues which have the highest amount of corporate disclosures (e.g., Brown and Deegan 1998; Deegan et al. 2002; Islam and Deegan 2010; Pollach 2014) and that firms with higher media visibility for social responsibility issues are more likely to disclose more CSR-related information (e.g., Cormier et al. 2004; Branco and Rodrigues 2008; Aerts and Cormier 2009; Reverte 2009; Nikolaeva and Bicho 2011; Chiu and Wang 2014; Garcia-Sanchez et al. 2014).

### *4.4.4 Media as agenda-setters in the business world*

Finally, the media are an important agenda-setter in the business world.
Agenda-setting theory has a long tradition in mass communication research (McCombs 1992; Weaver et al. 2004) and traces its roots back to McCombs and Shaw's (1972) study of the influence of mass media on the voters' opinions of US presidential campaigns in 1968. Agenda-setting theory consists of two levels (Weaver et al. 2004; McCombs 2005; Wu and Coleman 2009). The *first-level* focuses on the "basic agenda-setting hypothesis" (McCombs and Shaw 1993, p. 59) which, corroborated by a wealth of empirical research, states that the more an issue or an organisation is covered by the media, the higher its salience and importance in the eyes of the public (McCombs 1992; Weaver et al. 2004; McCombs 2005). By making certain issues more easily accessible to the public, the media can influence *what* topics the public are thinking and talking about. Additionally, Ader (1995) found that the amount of media attention devoted to an issue may not reflect the real-world conditions, suggesting that "the public needs the media to tell them how important an issue is. Individuals do not learn this from real-world cues" (Ader, 1995, p. 310). The contingent conditions of the relationship between the media agenda and the public agenda have been examined by separate lines of research. For instance, scholars have found that the relationship is mediated by the interests of individuals and the level of uncertainty about the issue (Weaver 1980), that a 'critical mass' of articles is necessary to move a private issue to one of public concern (Neuman 1990) and that the agenda-setting effect is especially strong for 'unobtrusive' issues, namely issues for which individuals rely on the media as the primary (and sometimes the only) source of information (Ader 1995). By influencing the public agenda, mass media contribute to build consensus among the members of a community on the priorities of their community, regardless of demographic differences (McCombs 1997; Shaw and Martin 1992). For instance, Shaw and Martin's (1992) data from a survey in North Carolina revealed that increased exposure to the news results in increased consensus about the public agenda and contributes to bringing different demographic subgroups of the population closer

together. The authors concluded that “we are what we read and view, not just the sum of the attributes that we were born with” (Shaw and Martin 1992, p. 919).

The *second-level* of agenda-setting (or *attribute agenda setting*) assumes that the media do not only tell the public *what* they should think about, but also “how to think about it” (McCombs and Shaw 1993, p. 62). The focus then is on *how* media influence the public perceptions of issues by prioritising or ignoring certain traits and attributes (Carroll and McCombs 2003; Wu and Coleman 2009). At this point, agenda-setting converges with framing theory (McCombs 2005). Although there are many perspectives on framing (Matthes 2009), Entman’s (1993) frequently cited definition contains language that is complementary to agenda-setting theory:

> “to frame is to select some aspects of a perceived reality and make them more salient in a communicating text, in such a way as to promote a particular problem definition, causal interpretation, moral evaluation and/or treatment recommendation for the item described” (Entman 1993, p. 52).

More recently, scholars have distinguished two different approaches to framing, including the psychology-rooted ‘equivalence or rhetorical framing’ and the sociologically oriented ‘emphasis framing’ (Scheufele and Iyengaer 2014; Cacciatore et al. 2016). While ‘equivalence framing’ looks at *how* logically equivalent information is presented to audiences, ‘emphasis framing’ concerns *what* is communicated to audiences. In this chapter, the term framing is used in the sense of ‘emphasis framing’, that is “essentially synonymous with attribute agenda setting” (Chernov and McCombs 2019, p. 74). The transfer from media agenda to public agenda is based on a cognitive mechanism known as ‘accessibility effect’ that is a “memory-based model of information processing” (Scheufele and Tewksbury 2007, p. 15). In other words, increased salience in the media is argued to activate relevant nodes in the minds of audience members and this activation spreads to related concepts. As a result, these sets of nodes are more accessible and therefore retrievable from memory when audience members have to make decisions (Scheufele 2000).

The application of agenda-setting theory to organisations has received growing international academic attention, particularly in the area of corporate reputation (e.g., Carroll 2011). The news media are widely considered important “agenda setters in the business world” (Pollach 2014, p. 351) that can influence *which* organisations and *which* corporate issues the public think about (*first level of agenda-setting*) as well as *how* the public think about them (*second level of agenda-setting*) (Carroll and McCombs 2003; Carroll 2004; Meijer and Kleinnijenhuis 2006; Ragas 2008; Carroll 2011). From this perspective, what individuals learn about companies and the issues that surround them is mainly the result of a mediated experience based on information disseminated by the media (Guthey and Morsing 2014). The agenda-setting effect is particularly influential for 'unobtrusive' issues, namely issues for which individuals rely on the media as the primary (and sometimes the only) source of information (Ader 1995). Since CSR is a vague and ambiguous concept (Guthey and Morsing 2014) that "means something but not always the same things to everybody" (Votaw 1972, p. 25), the media can play an important role in shaping CSR discourse and influencing public perceptions and interpretation of such a concept. Similarly, news media are seen as having a significant impact on public perceptions of corporate taxation (Hardeck and Hertl 2014; Anesa et al. 2019; Hardeck et al. 2019) since most corporations are silent on this issue.

Building on agenda-setting theory, a stream of research has focused on how news media contribute to shaping a certain configuration of CSR (see Table 4.3), influencing the public evaluation of the firm on this dimension (Wang 2007; Wang and Anderson 2008; Einwiller et al. 2010).

First of all, scholars have documented how media attention to CSR has increased over recent decades, contributing to the popularisation of the term 'CSR' to refer to the role of business in society (Buhr and Grafström, 2007; Barkemeyer et al. 2009; Barkemeyer et al. 2010; Lee and Carroll 2011; Tang 2012). For instance, Lee and Carroll (2011) employ a longitudinal study of US newspapers from 1980 and 2004 to document increased media attention to CSR issues and a significant variation in the prominence of the different CSR dimensions (i.e., legal, economic, ethical and philanthropic) over time.

Furthermore, previous studies have explored which attributes, actions and issues related to CSR have gained salience in the media agenda. First, CSR has been presented in relation to a limited set of corporate activities, mainly environmental practices (Barkemeyer et al. 2010; Frig et al. 2018; Furey et al. 2019), corporate philanthropy (Tang 2012), new corporate regulation and human resources management (Grafström and Windell (2011). Second, CSR practices have mostly been framed with positive emotional appeal (Zhang and Swanson 2006; Buhr and Grafström 2007; Tang 2012; Lunenberg et al. 2016; Furey et al. 2019; for an exception see Carroll and Lee 2011).

**Table 4.3** Previous research on media representation of CSR

| Author | Sample | Method | Main findings |
|---|---|---|---|
| Vivarta and Canela (2006) | 54 Brazilian newspapers from October 2003 to September 2004 | Content analyis | The media have incorporated the CSR concept in a far more publicity-oriented (superficial coverage focusing on the impact of events) than journalistic (pluralistic and contextualised) manner |
| Zhang and Swanson (2006) | 33 US newspapers and 18 international newspapers from January to February 2005 | Content analysis + framing analysis | The media use the terms CSR in six ways: fair and objective use; to endorse corporate achievement; to express community and social expectations; as a specialty and profession of communication; as a utilitarian business function; as a spinning function to polish the corporate images. The majority of articles refer to CSR in positive ways |
| Buhr and Grafström (2007) | *Financial Times from* 1988 to 2003 | Content analysis | The meaning of CSR as conveyed in the business press reflects the general development of the concept. The *Financial Times* supported a positive view of CSR stressing successful examples (the 'heroes') and problematic situations (the 'villains'). CSR coverage changed its character over the years. Initially (1988-1998) presented as an oxymoron that challenged the fundamental understanding of business, by the end of 2003 the concept of CSR was discussed as a new way of doing business, supported by both moral and economic arguments |
| Barkemeyer et al. (2009) | 115 national newspapers in 39 countries from 1990 to 2008 | Text mining | The level of the media's coverage of corporate sustainability has significantly increased since 1990. The increase seems to be of an incremental nature, rather than be associated with specific events. CSR has become the most widespread term to refer to the role of business towards society, compared to other terms such as business ethics, corporate citizenship, corporate accountability, corporate sustainability, triple bottom line. Notable national and regional differences exist in the coverage of corporate sustainability-related news. |
| Barkemeyer et al. (2010) | 62 national newspapers in 21 countries from 1990 to 2008 | Text mining | The media's coverage of sustainability-related concepts has significantly increased since 1990. The term CSR was mainly used to encompass the broader sustainability dimension. Media coverage reflects regional differences in the level of penetration of business ethics into society. |

| | | | |
|---|---|---|---|
| Lee and Kim (2010) | 30 newspapers and 5 magazines in USA and 31 newspapers and 6 business magazines in South Korea from February 2005 to February 2008 | Content analysis | Substantial cultural differences exist in news coverage between South Korea, a collectivistic country, and the United States, an individualistic country, in terms of the framing of CSR issues. US news stories about CSR are more likely to focus on whether CSR activities can bring profits or a competitive advantage to a company rather than whether they can be beneficial to society. |
| Grafström and Windell (2011) | *Financial Times* and *The Guardian from* 2000 to 2009 | Content analysis | CSR is discussed in relation to a limited set of corporate activities such as corporate philanthropy, new corporate regulation and human resource management. CSR is presented as something that can create business value rather than something that is good for society. Representatives from corporations and NGOs, as well as journalists, and consultants are allowed to express their view on CSR. |
| Lee and Carroll (2011) | The *New York Times* and *USA Today* and seven regional US newspapers from 1980 to 2004 | Content analysis | Media attention, prominence and valence of CSR dimensions (i.e., legal, economic, ethical and philanthropic) in the newspapers have changed over time. The number of articles about CSR has risen consistently. The negative tone was predominant. |
| Tang L. (2012) | One national Chinese newspaper and four local newspapers in 2009 | Content analysis | CSR is often defined in terms of a corporation's contribution to community through public philanthropy. Only about a third of all the articles engaged in some kind of discussion about what CSR consists of. Most of the articles take a positive tone. The media agenda on CSR is set by corporations and governments rather than NGOs. Chinese companies are covered much more than global companies operating in China. |
| Barros et al. (2014) | *Exame Magazine* (Brazil) from 2005 to 2009 | Discourse analysis | The discourse on CSR and sustainability assumes and stands for the dominant economic paradigm and reproduces practices that are desired and aligned with the realities of the developed nations. The concerns depicted in the articles relate to profits and the chase for business opportunities. |

| | | | |
|---|---|---|---|
| Guthey and Morsing (2014) | 4 business newspapers in Denmark from 1995 to 2004. | Content analysis | The business media reflect and amplify the ambiguity surrounding CSR. Indeed, there is little clarity, consistency and consensus among the articles with regard to why companies engage in CSR, who the key stakeholders for the development of CSR are and what issues are associated with CSR. |
| Frig et al. (2018) | *Prima* (Finnish business confederation-owned journal) from 2010 to 2013 | Content analysis + textual analysis | Environmental rather than social issues form the subject area of CSR in the infomediary, and the term 'CSR' is hardly used. Additionally, CSR activities are presented as business opportunities rather than challenges or responsibilities, and the publication advocates engagement in CSR as a strategy to avoid new regulations. |
| Furey et al. (2019) | *The Wall Street Journal*, *Bloomberg*, *Bloomberg Businessweek*, *Forbes*, *The New York Times* and *The Washington Post* from 2002 to 2007 and from 2009 to 2014 | Content analysis | Business media engage in more active discussion of CSR than general newspapers. The most widely mentioned beneficiary of CSR is the community. The most common topic discussed is environmental conservation, followed by development and poverty. Most business media adopted a positive tone in their CSR coverage before the economic crisis and a neutral/mixed tone for most of the time afterwards. Negative tone was the least evoked. Corporations were the largest source represented. |
| Lee and Riffe (2019) | *The Wall Street Journal* and the *Financial Times* from 2005 to 2014 | Content analysis | Significant differences exist in the media's coverage of the leading business newspapers of USA (explicit CSR) and the UK (implicit CSR). In the USA the business news about CSR exhibits a higher ratio of episodic framing than in the United Kingdom; the attribution of motives concerning CSR as a concept exhibits a higher ratio of business cases than in the United Kingdom; the attribution of motives concerning referenced companies exhibits a higher ratio of social pressure and for-profit than in the United Kingdom; the general tone towards CSR as a concept exhibits a higher ratio of negativity than in the United Kingdom; and the general tone towards referenced companies exhibits a higher ratio of negativity than in the United Kingdom. |
| Rottger et al. (2019) | Two national newspapers and two business newspapers in Germany in 2016 | Content analysis | The media discuss the social responsibility of corporations mainly with a focus on the economic dimension. |

For instance, Buhr and Grafström (2007) show how the *Financial Times* in the period 1988-2003 contributed to transforming the concept of CSR from an ‘oxymoron’ that challenged the traditional way of doing business, to an ‘imperative’, representing a natural part of management supported by economic and ethical rationales. Third, CSR has been presented more as a business opportunity for value creation rather than something that is beneficial for society (Barros et al. 2014; Tench et al. 2007; Grafström and Windell 2011; Frig et al. 2018). Frig et al.’s (2018) study on a Finnish business confederation’s journal reveals that voluntary environmental practices are presented as branding opportunities which contribute to construct a “national green business identity” (Frig et al. 2018, p. 349).

Finally, empirical evidence has revealed that, although corporates have been the largest source represented in news articles on CSR (Furey et al. 2019; Lee and Riffe 2017; Tang 2012; Vivarta and Canela 2006), other social actors, such as journalists, NGOs, consultants, and government representatives, have frequently been allowed to express their views (Grafström and Windell 2011; Tam 2019).

Only few studies have focused on the relationship between media and the implicit-explicit CSR framework (Höllerer 2013; Lee and Riffe 2019). Höllerer (2013) provides evidence that the global media coverage of the concept of CSR has pushed corporations to adopt an explicit CSR orientation, whereas Lee and Riffe (2019) have applied the implicit-explicit CSR framework for comparing CSR-related articles in the United States (*The Wall Street Journal),* where explicit CSR is prevalent, and the United Kingdom (*The Financial Times*), where implicit CSR is more influential. Using thematic framing (i.e., representation of an issue in general terms) as the indicator of implicit CSR and episodic framing (i.e., representation of an issue through specific event or corporation) as the indicator of explicit CSR, Lee and Riffe (2019) found that the way media frame CSR (as more explicit or more implicit) reflects the prevailing configuration in their national institutional setting.

To sum up, much work in the organisational literature has discussed how the media can reduce the information asymmetry between organisations and external stakeholders, affect perceptions of reputation and/or legitimacy of firms, and outline the issues that the public sees as important.

Consequently, the media can be conceived as a lens which has the potential to reflect the events occurring within the corporate world and the public debate. In particular, in this study the media are investigated to gain a more nuanced understanding of the evolution in the CSR approach to deal with corporate taxation. The way in which news media present and discuss the issue of corporate taxation in the framework of implicit and explicit CSR is likely to reflect how this issue is interpreted and practiced among companies, their stakeholders, and the general public.

## 4.5 Methodology

In order to address the research question, this chapter implements a content analysis of news media articles dealing with corporate tax-related issues. First, this section offers a brief description of content analysis and, second, it discusses how this method was applied in this work.

### *4.5.1 Content analysis*

Content analysis is an established, systematic and objective method to analyse texts, including media articles (Riffe et al. 2005). There are several definitions of content analysis. An early definition was developed by Berelson (1952, p. 18; quoted in Saunders et al. 2016, p. 608): "content analysis is a research technique for the objective, systematic and quantitative description of the manifest content of communication". More recently, one of the most cited definitions in organisational studies is offered by Krippendorf (2004, p. 18) who refers to content analysis as "a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use".

Content analysis is not only commonly used in the field of media and communication (Riffe et al. 2019), but, as previously mentioned, it has also been used by researchers to explore the development of CSR in the media (Buhr and Grafström 2007; Grafström and Windell 2011; Lee and Carroll 2011; Guthey and Morsing 2014; Lee and Riffe 2019). Therefore, there is the consolidated view among scholars that this method "offers researchers a way to develop knowledge of how media frame certain issues over time" (Grafström and Windell 2011, p. 223).

Some features distinguish content analysis from other research techniques (Saunders et al. 2016, p. 608; Payne and Payne 2011, p. 52; Schreier 2013). First, content analysis concerns the description and the analysis of what is apparent and physically present in the data, without relying on subjective judgements. Therefore, content analysis can take mundane, taken-for-granted texts and transform them into interesting objects of research, to attain a condensed and broad description of a particular phenomenon. Second, content analysis is based on a systematic and objective process. Indeed, content analysis requires the definition of explicit rules and categories to code and categorise data, in order to make the research transparent, comprehensible, and replicable by any researcher. Finally, content analysis is a flexible technique, not tied to a single theoretical interpretation. Broadly speaking, content analysis is suitable for researchers who need to analyse a large amount of qualitative data (such as the content of newspapers and other media, textual material in corporate websites, social media websites, or corporate reports, policy statements, codes of conduct, press releases, etc.), especially in relation to "descriptive types of 'what', 'when', 'where', 'who' and 'how' questions" (Saunders et al. 2019, p. 610).

#### *4.5.1.1 Quantitative vs. qualitative content analysis*

Any content analysis is characterised by a quantitative component. Indeed, the purpose of this research method is to categorise data and reduce them to a number of content categories for subsequent quantitative analysis, which may vary from counting frequency to examining the relationship between variables.

Depending on the role and the weight of quantitative analysis in the research, scholars usually distinguish between qualitative and quantitative content analysis. Although both versions are concerned with the systematic description of data through coding, in the quantitative tradition content analysis is usually considered a method for data collection, while in the qualitative approach content analysis counts as a method for data analysis (Schreier 2014). Therefore, in the quantitative tradition the process of coding is only the starting point for a subsequent statistical analysis of the data. The content analysis is seen as a means to quantify given variables in order to statistically analyse relationships between them. On the other hand, the focus of qualitative content analysis is on providing a detailed description of the material under analysis mainly for descriptive purposes (Hsieh and Shannon 2005; Elo and Kyngäs 2008). However, the findings of qualitative content can also be presented in quantitative style, for instance by making use of frequency counts (Schreier 2014).

Since this study addresses a descriptive type of question (i.e., the investigation of the trend and the evolution of the CSR approach to deal with corporate taxation), the content analysis employed in this research is closer to the qualitative tradition. The data were coded and classified in categories reflecting various dimensions of the implicit and the explicit configuration of CSR. Then, by counting the number of instances falling into each category, the prevailing CSR approach for each year under investigation was revealed.

#### *4.5.1.2 The coding process*

The coding process is the core of any content analysis. This process requires the researcher to code units of data according to a system of categories. The unit of analysis may be individual words, sentences, paragraphs, or whole texts. In this way, researchers systematically break down large volumes of data to make sense of the phenomena under investigation.

In order to establish appropriate categories for data coding, a number of requirements should be met (Schreier 2013; Saunders et al. 2019). First, categories should obviously be related to the purpose and the scope of the research. Second, categories should be mutually exclusive. This requirement does not imply that any one unit can be coded only in one category, but that any unit can be coded "only once under one category" (Schreier 2013, p. 175). Third, categories should be exhaustive, so that every relevant unit of data is covered. Finally, categories should be unidimensional, meaning that each of them covers one aspect of the material only.

The coding process may be conducted in an inductive or deductive way (Potter and Levine-Donnerstein 1999; Elo and Kyngäs 2008). In inductive content analysis, the categories are derived from the data. This process includes open coding and creating categories while reading the data. In other words, there is no identifiable theory that guides the design of a coding scheme. The inductive approach is recommended when "there is not enough former knowledge about the phenomenon or if this knowledge is fragmented" (Elo and Kyngäs 2008, p. 109). Conversely, deductive content analysis is used when the coding categories are derived from earlier work, such as theories, models, or empirical studies. According to this approach, after a coding scheme has been developed, all the data are reviewed for content and coded for correspondence with the established categories. The deductive approach is particularly appropriate not only to test models or hypotheses, but also when the purpose of the research is to apply existing knowledge in a new context (Elo and Kyngäs 2008, p. 109).

The content analysis applied in this study follows a deductive approach, since addressing the research questions required the application of the framework of implicit and explicit CSR in the context of corporate taxation. Therefore, the coding scheme was designed making use of the previous theorisations and operationalisations of this framework, as outlined in later sections.

#### *4.5.1.3 The reliability of content analysis*

One of the main issues associated with content analysis concerns its reliability (or, validity, rigour, trustworthiness) (Potter and Levine-Donnerstein 1999; Milne and Adler 1999; Elo et al. 2014). Indeed, the coding method needs to be reliable for valid conclusions to be drawn. More precisely, when researchers use content analysis, they "need to demonstrate the reliability of their instruments and/or the reliability of the data collected using those instruments to permit replicable and valid inferences to be drawn from data derived from content analysis" (Milne and Adler 1999, p. 237). Milne and Adler (1999) discuss the approach taken by Krippendorff (2004) where three different types of reliability are identified: stability, accuracy, and reproducibility. Stability refers to the ability of a coder to code data the same way over time and requires a test-retest procedure. Reliability measures the extent to which coding is the same when multiple coders are involved, whereas the accuracy measure involves assessing coding performance against a predetermined standard.

Although the most common way to demonstrate that the data is reliable is the use of multiple coders, Milne and Adler (1999) describe how the reliability of data can also be achieved by a single coder. They argue that to ensure reliable findings "researchers can demonstrate that a single coder has undergone a sufficient period of training. The reliability of the coding decisions on a pilot sample could be shown to have reached an acceptable level before the coder is permitted to code the main data set" (Milne and Adler 1999, p. 239). In the CSR literature, a large number of content analyses have been conducted using a single coder (Yongvanicha and Guthrie 2005; Guthrie et al. 2008; Comas Martí and Seifert 2013; Haji 2013; Cantrell et al. 2015; Fatima et al. 2015; Comyns and Figge 2015; Comyns 2016), corroborating the view that the use of multiple coders is not strictly necessary for achieving reliability. Some scholars even argue that "single coder enhances the internal credibility of the coding framework through consistency of coding" (Cantrell et al. 2015, p. 409) and "overcome some of the potential problems of picking a suitable coder" (Comyns 2016, p. 364).

In this study the coding process was conducted by a single coder, who is the same author. The reliability of the data was addressed in three ways. First, a reliable coding instrument with well-specified decision categories and decision rules was established. The coding categories were selected from well-grounded, relevant literature and were clearly defined. The fact that the author had previously conducted research on the issue under investigation contributes to enhancing the reliability of the coding scheme. Indeed, as noted by Krippendorff (2004, p. 128) "content analysts should not underestimate the importance of the coders' familiarity with the phenomena under consideration". Second, the reliability of the coding process was tested by means of a pilot study which was conducted with a second coder [13] before the main data set was tackled. The use of a second coder in the pilot test contributed to verifying whether the system of categories was appropriate, clear, and capable of being applied consistently by others. Finally, the stability of the content analysis was tested. As noted by Riffe et al. (2005, p. 145), "In a content analysis done by a single coder, the analyst tests the reliability against himself or herself at two points in time - referred to as stability in coding. This tests whether slippage has occurred in the single coder's understanding or application of the protocol definitions". Thus, the author/coder replicated the coding of data one month after the first analysis, without noting any significant differences.

Content analysis is best conceived as following a step-by-step or sequential process. Although scholars have identified various procedures (Schreier 2013; Saunders et al. 2016; Elo and Kyngäs 2008; Hsieh and Shannon 2005; Assarroudi et al. 2018; Riffe et al. 2005), any content analysis should at least involve three main phases: a) data collection; b) the definition of explicit rules and categories to code and categorise data (i.e., the 'coding frame', or 'coding scheme', or 'categorisation matrix'); c) the distinction between a pilot phase and a main phase of analysis.

[13] The second coder was Professor Silvana Signori.

### 4.5.2 *Data collection*

The first step of the content analysis involves collecting data. This research considered news articles published over a 20-year period (between January 1, 1999 and December 31, 2018) in eight UK newspapers: one business newspaper (the *Financial Times*), one general newspaper with a reputable business section (*The Guardian*) and six general newspapers (*The Daily Mail, The Daily Telegraph*, *The Independent, The Mirror*, *The Sun* and *The Times*). Different types of newspapers were included to incorporate the heterogeneity of the media (Roulet and Clemente 2018) and the differences between watchdog-oriented and business-oriented newspapers (Frig et al. 2018). The content analysis involved a long period of time (20 years) so that any transitions from one configuration of CSR to another could be tracked. The United Kingdom was chosen as the geographical context of this study because previous research has revealed that UK newspapers exhibit a strong interest in CSR-related issues (e.g., Buhr and Grafström 2007; Grafström and Windell 2011). Additionally, anecdotal evidence suggests that the public debate on corporate tax responsibility is particularly intense in the UK. The Institute for Business Ethics' survey series "Attitudes of the British Public to Business Ethics" has documented that corporate tax avoidance remained the first most important ethical issue that the British public thought business needed to address from 2013 to 2019[14]. Moreover, various UK-based NGOs have launched campaigns focused on tax justice (e.g., ActionAid, Christian Aid, Oxfam, and the Tax Justice Network).

News articles were selected using the *LexisNexis* database. The terms 'corporate tax*', 'tax avoidance', 'tax planning', and 'tax evasion' were used as the keywords to be searched in the articles' title, headline or lead section. The initial search of the 20-year period yielded 11,162 articles. All these articles were then manually reviewed to remove irrelevant items, such as articles that only mentioned corporate taxation or that dealt with individual taxpayers. This screening led to a total of 2,477 articles to be included in the initial sample (see Table 4.4). Consistently with previous studies on media representation of CSR (Grafström and Windell 2011; Lee and Riffe 2019), a sample of the total amount of articles was selected in order to make the number of articles more manageable for manual coding. To this end, following Lee and Riffe (2019, p. 694), 35% of the articles

[14]These surveys are available at https://www.ibe.org.uk/.

found were selected by random sampling, without compromising the distribution of the articles over the years of publication or the newspapers. Consequently, the final sample consisted of 859 news media articles. Table 4.5 lists the number of media articles of both the initial and the final samples, subdivided on the basis of the year of publication and the newspapers.

**Table 4.4** Sampling of articles

| Newspaper | Tot. LexisNexis results | Duplicates | Not useful articles | Useful articles |
|---|---|---|---|---|
| The Guardian | 2,425 | 359 | 1,474 | 592 |
| Financial Times | 3,008 | 344 | 1,944 | 720 |
| The Times | 2,930 | 1,048 | 1,552 | 330 |
| The Daily Telegraph | 1,525 | 382 | 959 | 184 |
| The Independent | 2,212 | 851 | 1,074 | 287 |
| The Sun | 828 | 176 | 572 | 80 |
| The Daily Mail | 635 | 17 | 454 | 164 |
| The Mirror | 1,000 | 259 | 621 | 120 |
| *Total* | *14,563* | *3,436* | *8,650* | *2,477* |

### *4.5.3 The coding scheme*

The second step of the content analysis involved building an appropriate coding scheme. Building a coding scheme requires the definition of explicit and transparent rules and categories according to which the data will be coded and categorised.

The purpose of this study is to investigate the trend and the evolution in the CSR approach to deal with corporate taxation. Therefore, the coding scheme should guide the researcher to code and categorise news media articles with respect to what is said about the configuration of CSR in the area of corporate taxation. Thus, the categories of the coding scheme should be able to represent and predict the implicit and explicit configuration of CSR. As mentioned above, this study conducted content analysis in a deductive way and using articles as the unit of analysis. Consequently, the coding scheme was built according to theory on implicit and explicit CSR.

**Table 4.5** Configuration of the initial and the final samples

| | **The Guardian** | | **Financial Times** | | **The Times** | | **The Daily Telegraph** | | **The Independent** | | **The Sun** | | **The Daily Mail** | | **The Mirror** | | ***Tot*** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *I.S.* | *F.S.* | *I.S.* | *F.S.* | *I.S.* | *F.S.* | *I.S.* | *F.S.* | *I.S.* | *F.S.* | *I.S.* | *F.S.* | *I.S.* | *F.S.* | *I.S.* | *F.S.* | *I.S.* | *F.S.* |
| 1999 | 6 | 2 | 18 | 6 | 6 | 2 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | *33* | *10* |
| 2000 | 6 | 2 | 30 | 11 | 8 | 3 | 0 | 0 | 3 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | *48* | *17* |
| 2001 | 3 | 1 | 2 | 1 | 1 | 0 | 0 | 0 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | *9* | *3* |
| 2002 | 6 | 2 | 0 | 0 | 1 | 0 | 1 | 0 | 4 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | *14* | *3* |
| 2003 | 2 | 1 | 21 | 7 | 4 | 1 | 3 | 1 | 3 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | *34* | *11* |
| 2004 | 8 | 3 | 64 | 22 | 13 | 5 | 10 | 4 | 9 | 3 | 3 | 1 | 5 | 2 | 1 | 0 | *113* | *40* |
| 2005 | 5 | 2 | 50 | 18 | 4 | 1 | 2 | 1 | 6 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | *68* | *24* |
| 2006 | 6 | 2 | 42 | 15 | 11 | 4 | 0 | 0 | 4 | 1 | 0 | 0 | 4 | 1 | 0 | 0 | *67* | *23* |
| 2007 | 5 | 2 | 26 | 9 | 6 | 2 | 2 | 1 | 5 | 2 | 1 | 0 | 9 | 3 | 0 | 0 | *54* | *19* |
| 2008 | 15 | 5 | 44 | 15 | 6 | 2 | 3 | 1 | 7 | 2 | 0 | 0 | 4 | 1 | 1 | 0 | *80* | *26* |
| 2009 | 51 | 18 | 21 | 7 | 6 | 2 | 5 | 2 | 4 | 1 | 0 | 0 | 2 | 1 | 1 | 0 | *90* | *31* |
| 2010 | 29 | 10 | 39 | 14 | 12 | 4 | 10 | 4 | 5 | 2 | 3 | 1 | 3 | 1 | 1 | 0 | *102* | *36* |
| 2011 | 35 | 12 | 27 | 9 | 7 | 2 | 9 | 3 | 7 | 2 | 3 | 1 | 12 | 4 | 6 | 2 | *106* | *35* |
| 2012 | 66 | 23 | 54 | 19 | 40 | 14 | 35 | 12 | 34 | 12 | 9 | 3 | 24 | 8 | 9 | 3 | *271* | *94* |
| 2013 | 91 | 32 | 83 | 29 | 36 | 13 | 48 | 17 | 76 | 27 | 24 | 8 | 27 | 9 | 33 | 12 | *418* | *147* |
| 2014 | 43 | 15 | 43 | 15 | 25 | 9 | 19 | 7 | 23 | 8 | 7 | 2 | 13 | 5 | 13 | 5 | *186* | *66* |
| 2015 | 86 | 30 | 56 | 20 | 21 | 7 | 10 | 4 | 30 | 12 | 3 | 1 | 12 | 4 | 12 | 4 | *230* | *81* |
| 2016 | 58 | 20 | 64 | 22 | 36 | 13 | 14 | 5 | 39 | 14 | 12 | 4 | 23 | 8 | 18 | 6 | *264* | *92* |
| 2017 | 44 | 15 | 22 | 8 | 44 | 16 | 9 | 3 | 15 | 5 | 8 | 3 | 12 | 4 | 11 | 4 | *165* | *58* |
| 2018 | 27 | 9 | 14 | 5 | 43 | 15 | 4 | 1 | 9 | 3 | 6 | 2 | 12 | 4 | 10 | 4 | *125* | *43* |
| *Tot.* | *592* | *206* | *720* | *252* | *330* | *115* | *184* | *66* | *287* | *99* | *80* | *26* | *164* | *55* | *120* | *40* | *2477* | *859* |

Therefore, previous conceptual and empirical studies on the framework of implicit and explicit CSR were reviewed to identify some indicators and predicting factors to be used as signs pointing to the presence of one particular configuration of CSR. In order to do this, the author reviewed the extant research to generate indicators for the configurations of CSR. As shown in Table 4.6, previous conceptualisations and operationalisations of the implicit-explicit CSR framework (e.g., Matten and Moon 2008; Angus-Leppan et al. 2010; Jamali and Neville 2011; Young and Marais 2012; Kim et al. 2013; Blindheim 2015; Kumar et al. 2019), converge on three main factors which differentiate the two versions, which are: 1) the use of the language of CSR (indicative of explicit CSR), or the lack of such language (indicative of implicit CSR) to describe business responsibilities for the interests of society; 2) the attribution of responsibility for social issues, and social scandals, to governmental (indicative of implicit CSR) or corporate actors (indicative of explicit CSR); 3) the regulation of a social issue with corporate-level mechanisms, which rely on voluntary and deliberate corporate decisions, often motivated by stakeholder expectations or strategic reasons (indicative of explicit CSR) or with collective-level mechanisms, which result in mandatory requirements for corporations codified in laws and regulations (indicative of implicit CSR).

Consequently, the coding scheme used in the content analysis applied in this study consists of three main categories (‘*language*’, ‘*attribution of responsibility*’ and ‘*mechanism of regulation*’), and a set of sub-categories, as discussed here below (the categorisation matrix is outlined in Table 4.7).

a) *Language*. Depending on the language used to refer to the payment of corporate tax, articles were coded under the two mutually exclusive categories of ‘*CSR-expressive*’ or ‘*CSR-inexpressive*’. An article was coded as ‘*CSR-expressive*’ when it included a minimum of one sentence referring to corporate tax payments using the language of CSR, otherwise articles were coded as ‘*CSR-inexpressive*’. More precisely, ‘*CSR-expressive*’ articles include expressions that frame corporate taxation as an area of social or moral responsibilities, or references that explicitly outline the importance of corporate tax payments for the well-being of society (e.g., to finance essential public services such as healthcare, education, or infrastructure) or the social impact of corporate tax policies (e.g., the human costs of tax avoidance in terms of poverty and inequalities in developing countries).

Conversely, '*CSR-inexpressive*' articles take the social dimension of corporate taxation for society for granted, without making use of the CSR language or making references to either the positive or negative social consequences of corporate tax policies.

b) *Attribution of responsibility*. Depending on the actor/s to whom the responsibility for tax-related scandals and injustices (e.g., tax evasion or tax avoidance) is attributed, articles were coded under the four mutually exclusive categories of '*blaming corporate level*', '*blaming collective level'*, *'mixed responsibility*' or '*neutral responsibility*'. An article was coded as '*blaming corporate level*' if corporations were portrayed as being responsible for an inefficient and unfair tax system, due to their aggressive (and morally dubious) tax strategies aimed at maximizing after-tax profits. Conversely, an article was coded as '*blaming collective level'* if governmental institutions were accused of being incapable or unwilling to make companies pay their fair share of taxes (for instance, because of the tax competition between countries or an excessive business-friendly approach). Third, an article was coded as '*mixed responsibility*' if both corporations and governments are blamed, in at least one sentence each, for tax-related scandals. Finally, an article was coded as '*neutral responsibility*' when it includes no sentences blaming corporations or governments.

c) *Mechanisms of regulation*. Depending on which regulatory mechanisms are discussed, or proposed, as remedies for tax-related problems (typically, tax avoidance and tax evasion), articles were coded under the four mutually exclusive categories of '*corporate level regulation*', '*collective level regulation*', '*mixed regulation*' or '*neutral regulation*'. First, an article was coded as '*corporate level regulation*' when it discusses, in at least one sentence, self-regulatory mechanisms as solutions for solving tax-related scandals (e.g., corporate self-restraint, voluntary tax disclosure or codes of conduct on taxation) as implemented by firms or demanded by stakeholders. Second, an article was coded as '*collective level regulation*' when it includes at least one sentence that discusses (national, European or international) tax laws or mechanisms of tax enforcement, tax audit or tax inquiries as remedies to ensure that companies pay their fair share of taxes. Third, an article was coded as '*mixed regulation*' when both types of regulatory mechanisms are discussed in at least one sentence each. Finally, an article was coded as '*neutral regulation*' when no references to regulatory mechanisms to solve corporate tax-related problems are included.

**Table 4.6** Conceptualisations of implicit and explicit CSR by previous literature

| **Author/s** | **Conceptualisations** | **Main factor/s** |
|---|---|---|
| Matten and Moon (2008) | "Companies practicing explicit CSR use the *language* of CSR in communicating their policies and practices to their stakeholders, whereas those practicing implicit CSR normally do not describe their activities this way" and "Implicit CSR, however, is not conceived of as a voluntary and deliberate corporate decision but, rather, as a *reaction to, or reflection of, a corporation's institutional environment*, whereas explicit CSR is the result of *a deliberate, voluntary, and often strategic* (Porter & Kramer, 2006) decision of a corporation. Many of the elements of implicit CSR occur in the form of *codified norms, rules, and laws* but are not conventionally described explicitly as CSR" (p. 410, *emphasis added*). | Language<br><br>Mechanisms of regulation |
| Angus-Leppan et al. (2010) | Explicit CSR indicators include "reference to *publicizing and formalizing* CSR and organisational values. Reference to processes surrounding CSR such as reporting either externally or internally on organisational values," and implicit CSR indicators refer to "expressed personal values, informal discussion of CSR and ethical issues, and CSR or organisational values *not publicized or promoted*" (p. 198, emphasis added). | Language |
| Jamali and Neville (2011) | "Explicit CSR was gauged through *corporate policies, programs, and strategies* that were voluntarily and deliberately designed or developed to either proactively fulfill a perceived responsibility toward society or to more reactively comply with the expressed expectations of the different stakeholders of the corporation" and "implicit CSR was addressed *through probing for peculiar CSR requirements* (but not necessarily acknowledged or referred to using the language of CSR) that were considered salient by business firm managers in the specific Lebanese context reflecting wider or *broader social norms or institutions (e.g., religious pressures, cultural traditions or values, and beliefs in society)*" (p. 608, *emphasis added*). | Mechanisms of regulation |
| Young and Marais (2012) | "Implicit CSR consists of *values, norms, and rules usually codified and mandatory*, which could be classified as coercive, whilst explicit CSR consists of *voluntary activities and policies, motivated* by the perceived expectations of stakeholders, which could be classified as mimetic or normative" (p. 435, *emphasis added*) and "In regard to *explicit and implicit reporting,* implicit CSR would be more likely to be reported in Annual Reports and | Language<br><br>Mechanisms of regulation |

| | | |
|---|---|---|
| | Codes of Conduct and include those policies and practices that are regarded as "minimum standards" and regulated; whilst explicit CSR would be more likely to be reported on websites and CSR reports and be seen as *"voluntary"* in nature" (p. 440, *emphasis added*). | |
| Kim et al. (2013) | "Businesses practicing implicit CSR view CSR as an element of what the firm does and the firm's management, and do not apportion specific behaviours or action to CSR activity. Explicit CSR, by contrast, *involves specific programs, strategies and policies that result from strategic decisions*, the business value of which is communicated to stakeholders with a strategic logic" and "The use of explicit or implicit CSR depends on national business systems, where *explicit advertising of contribution* to society in, for example, healthcare, education, employee welfare and other social provision is characteristic of North American firms' CSR (Matten & Moon, 2008). Europe's firms adopt a more implicit style because it would be unattractive in Europe to *report social provisions* that are already supplied by state institutions, such as health services in the UK or employee welfare benefits in Germany" (p. 2582, *emphasis added*). | Language<br><br>Mechanisms of regulation |
| Blindheim (2015) | "As a result, within the model of explicit CSR, the responsibility mechanisms are more *corporate than collective in nature*: the corporate entity - through voluntary corporate policies and programs - assumes a *direct organisational-level responsibility* for various social issues, such as employees' pensions and the reduction of greenhouse gases. Within the model of implicit CSR, on the other hand, the responsibility mechanisms for obtaining what is valued is more collective than corporate in nature. The corporate entity, as a member of the societal institution of business – through values, norms, and rules - assumes *an indirect responsibility for various social issues*, together with the other major institutions of society. The key difference between *corporate- and collective-level responsibility mechanisms* is that while the former are situated inside an organisation and issued with the authority that managers are granted within formal organisations, the latter are situated outside organisations and issued without the authority that managers are granted within formal organisations" (p. 62, *emphasis added*). | Mechanisms of regulation<br><br>Attribution of responsibility |
| Kumar et al. (2019) | "Explicit CSR involves enacting *company-specific CSR policies and programs* of social interest and explicitly articulating these claims from various stakeholder groups. It consists of voluntary initiatives in which companies combine both societal and business value and address issues that are perceived as part of a broader social responsibility" (p. 1122, *emphasis added*) and "implicit CSR is manifested in *mandatory policies and practices for companies* that address a variety of stakeholder issues. Additionally, in contrast to explicit CSR, these policies are decided upon collectively rather than by individual companies" (p. 1123, *emphasis added*). | Mechanisms of regulation |

**Table 4.7** Categorisation matrix

| Main categories | Sub-categories |
|---|---|
| Language | CSR-Expressive<br>CSR-Inexpressive |
| Attribution of responsibility | Blaming corporate level<br>Blaming collective level<br>Mixed responsibility<br>Neutral responsibility |
| Mechanism of regulation | Corporate level regulation<br>Collective level regulation<br>Mixed regulation<br>Neutral regulation |

### *4.5.4 The pilot test*

In the pilot phase, the coding scheme was tested on part of the material. This step is crucial "for recognizing and modifying any shortcomings in the frame before the main analysis is carried out" (Schreier 2013, p. 179). As mentioned above, the pilot test was conducted by two coders working independently, to increase the reliability of the content analysis. For the pilot test, 50 articles were randomly selected from the final sample. At the end of the first round of coding, the two coders compared the results and identified those articles that were assigned to different categories. To do so, they met and discussed their reasons for coding. This examination showed that the discrepancies were due to the fact that some rules and definitions of the coding scheme were not clear or straightforward. Consequently, the definitions of the categories were better described, and additional decisional rules were added. Once these revisions were concluded, a second round of trial coding was conducted on a sub-sample of 20 articles, after which the coders agreed that the coding scheme was sufficiently reliable to be used for the main analysis.

## 4.6 Results

As discussed above, the articles of the final sample were content analysed and coded for their correspondence with a set of deductively-derived indicators and predicting factors of implicit and explicit CSR (i.e., the language, the attribution of responsibility and the mechanisms of regulation). The results of the content analysis are discussed in the following sections.

### *4.6.1 Language*

Articles were coded as *CSR-expressive* or *CSR-inexpressive* depending on the language used to refer to corporate tax payments. Articles coded as *CSR-inexpressive* do not refer to, or describe, the payment of tax using the language of CSR. Many of these articles include quotations from representatives of big businesses (such as Amazon, Apple, Barclays, eBay, Facebook, Google, Starbucks, Vodafone) who seek to defend their firms' tax strategies using two main tactics, both typical of an implicit configuration of CSR. Some of them deny the wrongdoing using exclusively legal argumentations, manifesting that they perceive the duty to comply with tax laws as the sole tax-related responsibility. As such, they argue that "the payment of tax is not moral - simply the application of rules" (the *Financial Times*, January 26, 2016). Conversely, other corporate representatives contend that the payment of tax should not be seen as an explicit component of a firm's contribution to society. For instance, in an article in the *Financial Times* (March 5, 2012) a representative from a consulting firm notes that:

> Companies don't want their contribution to society to be defined by how much tax they pay, even when they have a strong story to tell. [..] [Business] has to punch through to the public consciousness a narrative about jobs, growth and investment.

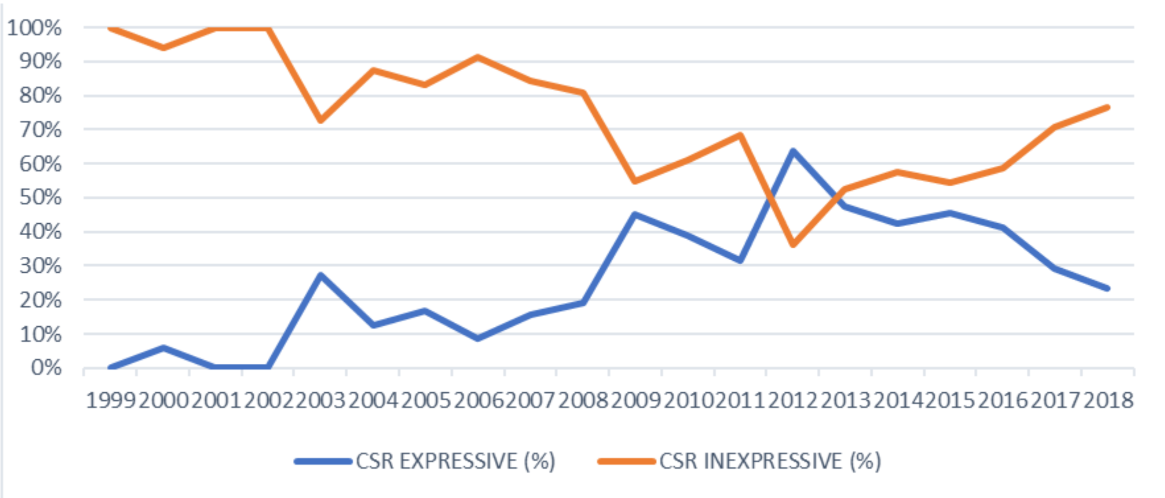
In articles coded as *CSR-expressive*, the payment of corporate tax is referred to using the language of CSR. Some of these articles explicitly frame corporate taxation as an issue of CSR. For example, in an article in *The Guardian* (April 23, 2013) the director of the Institute of Business Ethics contends that:

> Paying a fair amount of tax in the countries where they operate is seen as the socially responsible thing for companies to do: providing the funds for public services such as healthcare, education and infrastructure. These are public services which companies benefit from either directly or indirectly.

Moreover, other *CSR-expressive* articles explicitly link (the lack of) corporate tax payments to global social issues, such as poverty and inequalities in the developing country. For instance, a letter written by ActionAid stresses how "corporate tax avoidance in developing countries leaves healthcare, schools and other key public services starved of resources" (*The Guardian*, October 14, 2015). Finally, in some articles the payment of corporate tax is presented in ethical terms, provided that "how we put back into the community, back into the society from which we draw our revenues, is a moral issue" (*The Times*, November 5, 2013). In this regard, it is interesting to note that in 2012 the UK Committee of Public Accounts scrutinized the tax behaviour of Amazon, Google and Starbucks and, during a hearing, the President, Margaret Hodge, responded to the denials of MNEs' spokespeople by stressing that "we are not accusing you of being illegal, we are accusing you of being immoral" (*The Times*, November 13, 2012).

On average, throughout the 20 years examined, most of the articles (63%) were coded as CSR-inexpressive, revealing a certain reluctance to use the language of CSR to refer to, and discuss, corporate tax payments. From the graph in Figure 4.1, it is apparent that there have been significant differences in the degree of explicitness of the language over the years. In particular, the percentage of articles coded as *CSR-expressive* for each year remained very low in the period between 1999 and 2006, when it averaged 8.88%. Subsequently, it increased markedly from 2007 until 2012, when it reached its peak (64%). Finally, the proportion of *CSR-expressive* articles gradually declined between 2013 and 2018. Interestingly, during the period 2009-2016, almost one in two articles (272 out of 582 articles) have discussed corporate taxation using CSR-related expressions.

**Figure 4.1** The trend of the use of CSR language to refer to corporate taxation



### 4.6.2 *Attribution of responsibility*

Many of the articles of the sample report on companies paying ridiculous and unfair amounts of tax on their profits. Almost 33% of the total number of articles attribute the responsibility for these scandals to the same companies, which are blamed for engaging in creative tax compliance and aggressive tax planning oriented towards minimizing their tax burden and increasing profits, as exemplified in an article in *The Times* (December 8, 2012):

> The responsibility for these circumventions of good citizenship and corporate responsibility lies, as well, with the perpetrators, not with the authorities. Some degree of tax planning, by either individuals or corporations, is both right and entirely moral. But aggressive tax avoidance - where halftruths or outright lies are passed as fact for the sole purpose of limiting tax - should neither be tolerated, nor be expected to be.

In most of these articles, a number of corporate giants (i.e., Amazon, Facebook, Google, IKEA, Starbucks, and Vodafone) have been recurrently mentioned as symbols of bad behaviour in relation to corporate taxation because they "view taxation as just another cost of doing business and therefore within their fiduciary responsibility to seek ways of reducing their tax obligation as part of their cost base" (*The Guardian*, May 23, 2013).

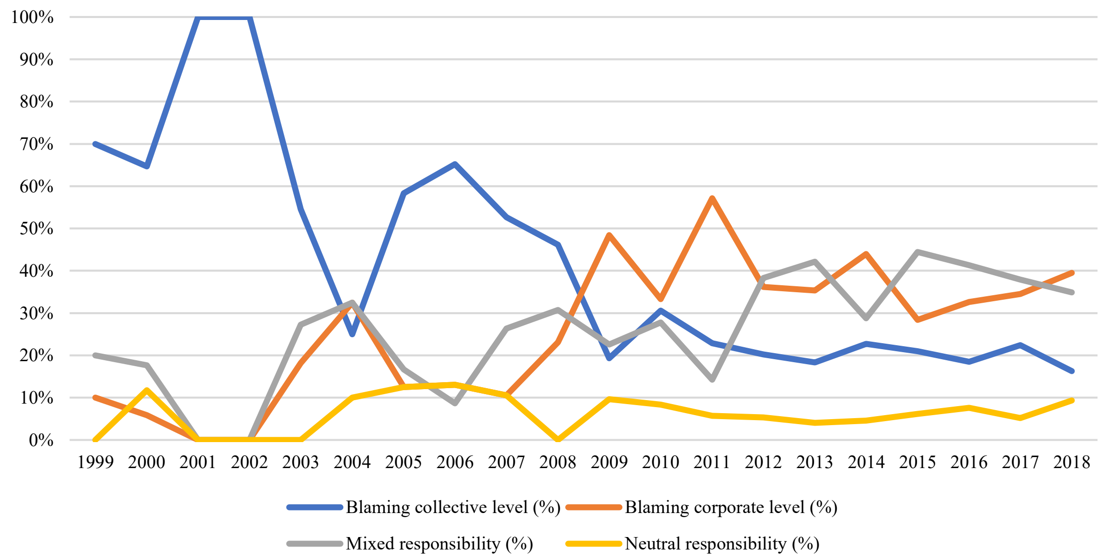
Conversely, about 27% of the articles attribute the responsibility for the lack of fair corporate tax payments to the failure of governmental and intergovernmental institutions, accused of engaging in harmful tax competition to attract foreign companies, of pursing business-friendly policies and of being incapable of revising the legal tax framework properly against the digitalisation and globalisation of business models. For instance, an article in the *Financial Times* (November 3, 2015) reports on tax campaigners' protests against the UK government:

> In a report, Christian Aid accused the government of taking "a two-faced approach to tax". It criticised ministers for promising harsher tactics against evasion and avoidance while being an aggressive participant in global tax competition and tolerating lower levels of transparency from its Crown Dependencies and Overseas Territories. In another report published this week, the Tax Justice Network, a campaign group, said the UK's role in global financial secrecy remained "a huge concern". Separately, Prof Jose Antonio Ocampo of Columbia University described London as a tax haven at a meeting at the House of Commons organised by Christian Aid, Action Aid and Oxfam.

The majority of the remaining articles (about 34%) contains references that blame both the corporate- and the collective-level, while 6.40% of the articles do not blame any actor.

It is interesting to examine how the attribution of responsibility for tax scandals changed over the years under analysis (Figure 4.2). First, in the period between 1999 and 2008 governmental institutions were mainly accused for their incapacity to tax companies. In this period, the percentage of articles coded as *blaming collective level* averaged almost 64%. Subsequently, in the years between 2009 and 2011, the number of articles coded as *blaming corporate level* increased and reached its peak in 2011 (57%). Finally, the last period (2012-2018) saw a slight predominance of articles blaming both the corporate and the collective level over articles blaming only corporations. Interestingly, in each year between 2009 and 2018 the number of articles coded as *blaming collective level* always remained lower than the number of articles coded as *blaming corporate level*.

**Figure 4.2** The trend of the attribution of responsibility for corporate tax scandals




### *4.6.3 Mechanisms of regulation*

Overall, 63% of the articles portray collective level mechanisms as the most appropriate remedy for making companies pay their fair share of tax, placing an emphasis on the need to revise the legal tax framework by closing existing loopholes and mismatches between national regulations. For instance, in 2013 the OECD launched a major project, "known as the base erosion and profit shifting (BEPS) action plan, to end the aggressive tax avoidance by companies that it believes detracts from their home economies" (*Financial Times*, November 2, 2014).

Among the various measures to increase corporate tax payments, national governments and intergovernmental institutions have also considered the introduction of mandatory requirements to enhance corporate tax transparency. The assumption behind this measure is that putting tax-related information in the public domain "could help put pressure on corporations to change their behaviour" (*The Guardian*, September 6, 2016). The importance of mandatory tax transparency was much higher in the period 2009-2018, when this measure was discussed in 13.20% of articles dealing with collective level regulatory mechanisms, as compared to 1.28% in the years between 1998 and 2008. For instance, since 2016 large companies operating in the UK have been obliged to publish an annual tax strategy. As a consequence

> Each company will have to articulate their appetite for risk in tax planning. and say whether they "seek to work in accordance with the spirit – in addition to the letter of the law". Businesses may have to publish whether the UK group has an effective tax rate, what that rate is, and what measures the business is taking to maintain or reach this target (*The Guardian*, July 23, 2015).

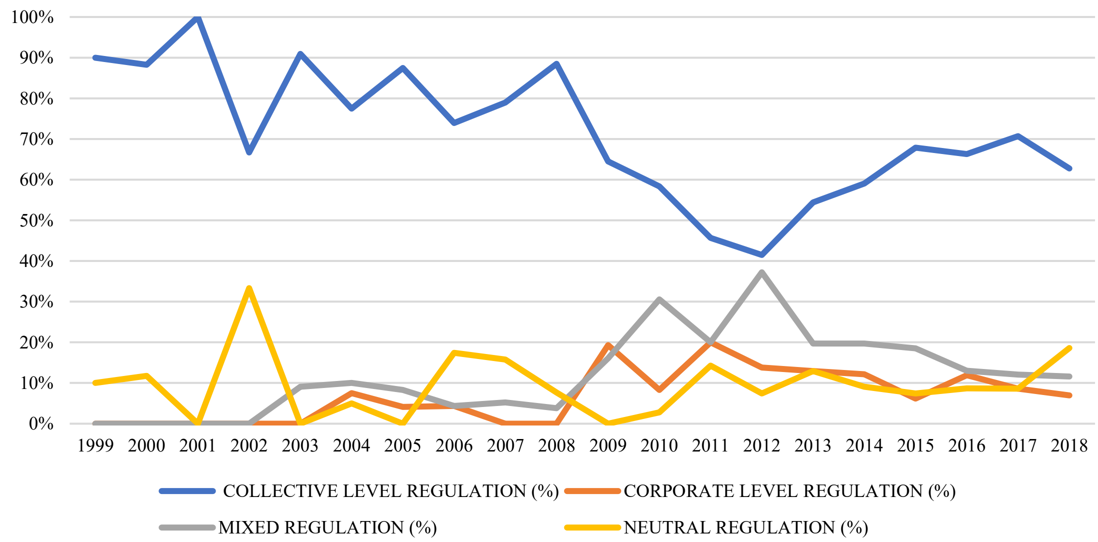
On the other hand, the data suggest that firm-level regulatory mechanisms, such as the introduction of codes of conduct, principles and standards for responsible taxation and tax disclosures, were discussed in 17% of articles in combination with collective level mechanisms, and only in 10% of the articles as the sole solution to corporate tax scandals, as exemplified in an article in *The Guardian* (May 14, 2014):

> A group of activist investors are calling on other Google shareholders to press the company to adopt a code of conduct on tax that would bring its corporate structures back in line with its "Don't be evil" motto. "A set of principles to address misalignments between Google's tax strategies and its commitments to employees, communities, shareholders and the environment would help protect long-term value," they argue in a proposal to be voted on at Google's annual shareholder meeting on Wednesday.

In addition, other articles report stories of companies which have demonstrated their commitment to being socially responsible taxpayers, including companies which have voluntarily changed their tax behaviour as a reaction to stakeholder demands - such as when Starbucks in 2012 voluntarily paid "the UK £20m over two years after a public outcry at its low tax bill during the decade before" (*Financial Times*, September 22, 2016) – as well as companies which have been awarded with an accreditation for their responsible tax policies - such as when the Energy company SSE became "the first FTSE 100 business to be awarded the Fair Tax Mark, a scheme that aims to hold companies to account over their tax affairs" (*The Guardian*, October 20, 2014).

As shown in Figure 4.3, the results indicate that the relative importance of the collective- and corporate-level mechanisms of regulation has changed over the years, even if less significantly than what was observed for the indicators related to language and the attribution of responsibility. In particular, the period between 1999 to 2008 was dominated by regulatory mechanisms at the level of governmental and intergovernmental institutions (e.g., EU and OECD). However, since 2009, the importance of corporate level regulatory mechanisms has begun to increase, especially as a solution to be implemented in conjunction with traditional governmental regulation. Indeed, the period 2009-2012 saw a rise in both the percentage of articles coded as *mixed regulation* and as *corporate level regulation*, that averaged respectively 26% and 15%. However, after reaching their peaks in 2011 and 2012, the proportion of articles coded as *corporate level regulation* and *mixed regulation* decreased constantly until the end of the period under investigation.

**Figure 4.3** The trend of regulatory mechanisms to tackle corporate tax scandals




## 4.7 Discussion: the evolution in the CSR approach to corporate taxation

The present study was designed to understand the legitimate configuration of CSR in the area of corporate taxation, as well as to track its evolution over the years. The results of the content analysis indicate that neither the explicit nor the implicit CSR configuration can be said to dominate the issue of corporate taxation, and that the relationship between CSR and this issue has undergone some radical transformations in the past 20 years. In order to better understand and describe the evolution of the dominant CSR approach to corporate taxation some indicators were established for measuring the level of explicitness of each predicting factor of implicit and explicit CSR (i.e., language, attribution of responsibility, and mechanisms of regulation) and the ‘aggregate degree of explicit CSR’ indicator measuring the overall level of CSR-explicitness of the approach to corporate taxation for a given year (or period). All these indicators are presented in Table 4.8. After comparing the values of these indicators for each year under analysis, it emerged that four main CSR approaches to corporate taxation can be distinguished over the years (Figure 4.4), each characterised by a certain combination in the use of CSR language, the attribution of responsibility, and the mechanisms of regulation (Figure 4.5).

**Table 4.8** Aggregate indicators of the explicitness of the configuration of CSR

| **Name** | **Measure** |
|---|---|
| Degree of explicit CSR language (year x) | (Number of articles in year x coded as '*expressive CSR*') / (Total number of articles in year x) |
| Degree of explicit CSR responsibility (year x) | (Number of articles in year x coded as 'blaming corporate level') + Number of articles in year x coded as *'mixed responsibility*'/2) / (Total number of articles in year x – number of articles in year x coded as '*neutral responsibility*') |
| Degree of explicit CSR regulation (year x) | (Number of articles in year x coded as '*corporate level regulation*' + Number of articles in year x coded as *'mixed regulation'*/2) / (Total number of articles in year x – number of articles in year x coded as '*neutral regulation*') |
| Aggregate explicit CSR score (year x) | (Number of articles in year x coded as 'expressive CSR' + Number of articles in year x coded as 'blaming corporate level' + Number of articles in year x coded as *'mixed responsibility*'/2 + Number of articles in year x coded as '*corporate level regulation*' + Number of articles in year x coded as *'mixed regulation'*/2) |
| Aggregate implicit CSR score (year x) | (Number of articles in year x coded as '*CSR inexpressive'* + Number of articles in year x coded as '*blaming collective level*' + Number of articles in year x coded as *'mixed responsibility*'/2 + Number of articles in year x coded as '*collective level regulation*' + Number of articles in year x coded as *'mixed regulation'*/2) |
| Aggregate degree of explicit CSR (year x) | Aggregate explicit CSR score in year x / (Aggregate explicit CSR score in year x + Aggregate implicit CSR score in year x) |

**Figure 4.4** The trend of the explicitness/implicitness of the CSR configuration to deal with corporate taxation

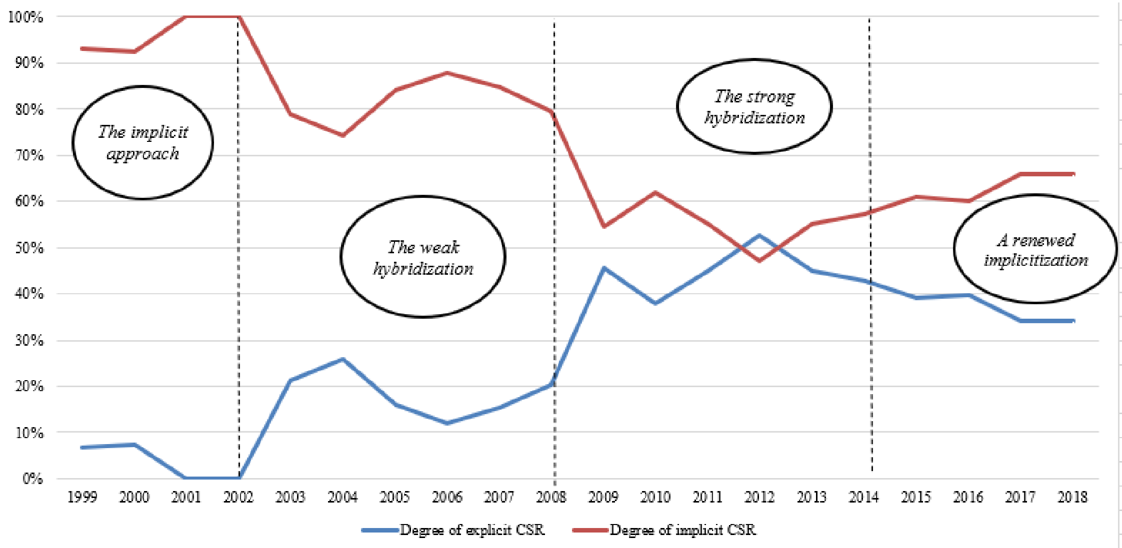
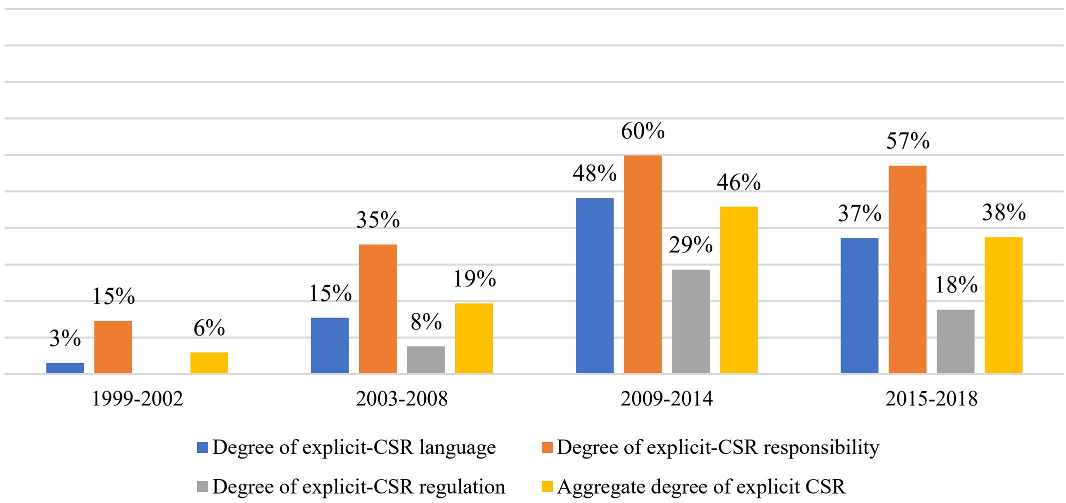



**Figure 4.5** The four phases in the CSR approach to responsible corporate taxation




The four phases are discussed in the following:

– *1st phase: the implicit CSR approach.* At the beginning of the period of analysis (1999-2002), corporate taxation was widely considered as an area of implicit CSR. Corporate taxation was discussed exclusively as a legal issue, without making any explicit reference to the social and ethical implications of corporate tax payments. Additionally, only governments were deemed to have the authority to regulate the tax behaviour of firms and they were blamed primarily when companies were perceived not to be paying an appropriate share of taxes.

Therefore, what companies were expected to do was to be compliant with tax laws, while governmental institutions had the responsibility of making the regulation as strict and efficient as possible. In particular, tax regulations, such as the introduction of anti-avoidance tax measures, were almost exclusively discussed at the level of national governments. The same governments were also accused of being subject to corporate lobbying and of promoting corporate tax avoidance, introducing complex and obscure tax rules and offering favourable tax treatments to large businesses.

- *2nd phase: the weak hybridization*. In the period between 2003 and 2008 the implicit CSR approach remained dominant in the area of corporate taxation, but it was weakly contaminated by some typical traits of explicit CSR. First, journalists and commentators started to refer to corporate tax payments as a necessary and fundamental part of good corporate citizenship and CSR, and to explicitly denounce the social consequences of the lack of corporate tax payments, primarily in terms of higher tax burden for individual taxpayers and lower level of public services. On the other hand, although national governments remained the major actors to be blamed for corporate tax scandals, companies also started to be scrutinized for their tax behaviour. In particular, companies were blamed for treating the payment of tax as a business cost and tax departments as profit centres and, then, for minimizing the tax burden by circumventing legal rules through tax strategies variously described as 'aggressive', 'artificial', 'questionable', 'unacceptable', 'sophisticated', 'abusive', 'shameful', 'creative', or 'unusual'. Finally, collective-level mechanisms were still regarded as the only legitimate source of regulation.
- *3rd phase: the strong hybridization.* In the years from 2009 to 2014, the implicit CSR approach to corporate taxation was increasingly contaminated by some typical elements of explicit CSR. As a result, at the end of this period the explicit and the implicit configuration of CSR coexisted with the same importance, acting as complementary, rather than substitutive, approaches in the area of corporate taxation. First, these years saw a significant increase in the use of the language of CSR to refer to corporate tax payments, especially among various stakeholder groups. This growth was mainly driven by NGOs and social interest groups which

increasingly mobilised against corporate tax avoidance to raise public awareness about the social impact of the lack of corporate tax payments, in particular on the lives of millions of people in developing countries. Nevertheless, most companies remained reluctant to talk about corporate taxation as a CSR issue, and continued to refer to their tax responsibility in purely legal terms. Second, corporate tax scandals were increasingly seen as a matter of shared responsibility between governmental and corporate actors, who were almost equally blamed for the ineffectiveness and unfairness of the tax system. Lastly, in this period the first corporate-level initiatives to regulate corporate taxation emerged, such as the 'Code of Practice on Taxation for Banks' which was introduced in 2009, the implementation of the first ethical tax policies on the part of companies, and the launch of the 'Fair Tax Mark' certification in 2014 and growing pressures from stakeholders to urge companies to self-regulate their tax behaviour. Furthermore, this period was characterised by growing stakeholder pressure urging companies to self-regulate their behaviour and to explain their tax policies. For instance, the first boycotts against tax avoiding firms (e.g., Amazon and Starbucks) were launched, while investors began to include tax-related criteria in their decision-making process. This pressure reflects an increasing awareness among stakeholders that tackling corporate tax avoidance and achieving a fairer and more efficient tax system required not only a better legal framework, but also a change in the corporate culture and approach to taxation. Additionally, this pressure contributed towards making strong business cases for a more explicit approach to responsible corporate taxation and had the potential to change the way in which companies perceived the payment of tax, from a merely legal and mandatory obligation to a strategic corporate decision to maintain and build further public trust and positive relationships with stakeholders. Consequently, a number of stories appeared in the media praising companies for their engagement in responsible tax practices, such as the voluntary disclosure of tax information, the announcement of changes in their tax arrangements to increase tax payments, or the award of certifications for responsible tax policies. Nevertheless, collective-level mechanisms to regulate corporate tax behaviour continued to be much more widely discussed and appreciated. Compared to the previous years, in this period collective-level regulatory mechanisms exhibited two distinct features. First, corporate tax regulation crossed the national boundaries, and many regulatory initiatives were discussed at international (e.g., OECD) and European level. Then, there was growing recognition that the digitalisation and globalisation of corporate business models require global and coordinated solutions. On the other hand, there was an increase in the number of legal initiatives focused on mandatory tax transparency. These initiatives clearly demonstrate the hybrid CSR approach that characterised this period, with governmental actors who required companies to assume a more explicit approach to responsible taxation and to be more transparent about their tax behaviour.

- *4th phase: a renewed implicitization.* In the last years of the period under investigation (2015-2018) the importance of the implicit CSR approach to corporate taxation resumed an upward trend, even if it continued to incorporate some elements of explicit CSR. First, even if the use of CSR language remained quite widespread, it decreased compared to the previous phase. This reduction may be attributed to the acquired awareness of the social and ethical implications of taxation among stakeholders, as well as to the persistent reticence on the part of companies to include the payment of tax in their explicit CSR agenda. Second, these years saw a decrease in the attention devoted to the self-regulation of companies, revealing a widespread lack of trust in companies' self-regulating their behaviour in taxation. Conversely, the growing importance of the collective-level regulatory mechanisms can be attributed to the development of some major international projects to tackle tax avoidance, such as the OECD's Base Erosion and Profit Shifting Project and the EU's Anti-Tax Avoidance Package. Finally, corporate tax scandals continued to be considered as a matter of shared responsibility between governmental and corporate actors.

The results of this research not only support the idea that corporate taxation is mainly considered as an area of implicit responsibilities but also, and more interestingly, that the implicit CSR approach to corporate taxation has gone through a process of hybridization, resulting in the incorporation of some typical elements of explicit CSR. This process towards a more explicit approach to responsible taxation was mainly driven by stakeholders (e.g., NGOs, investors, and consumers) who blamed companies for engaging in illegitimate and inappropriate tax strategies and introduced the language of CSR to refer to corporate tax payments. Taken together, the evidence from this study suggests a widespread dissatisfaction over how companies comply with tax laws and exercise their discretion within the legal boundaries, as well as an increasing feeling among stakeholders that staying with the letter of the law and paying ridiculous amounts of tax is against the principles of ethical and responsible business conduct.

Nevertheless, this process of explicitization was incomplete, since the implicit CSR approach was still dominant at the end of the period. It seems that the transition towards a more explicit approach to responsible corporate taxation has been constrained by two main elements. First, companies have been reluctant to publicise and promote corporate tax payments as a CSR obligation. Most firms conceive their tax responsibility as compliance with tax laws, in order to defend the appropriateness of their tax schemes aimed at minimizing the tax burden within the legal framework. Second, national and international legislations have remained the dominant mechanisms of regulation of corporate tax behaviour and few initiatives have been undertaken for developing standards, principles, and guidelines for the self-regulation of companies in taxation.

In conclusion, the results suggest that critics and stakeholders have concentrated on blaming companies for how they approach their tax responsibility, defining many tax strategies as socially irresponsible or morally unacceptable, but on the other hand they have failed to develop and promote the transition towards a more responsible attitude to taxation. In other words, the results highlight marked discrepancies between the actors blamed for and accused of causing tax scandals (i.e., companies) and the actors called to act to resolve those scandals and ensure they no longer occur (i.e., governmental institutions). These discrepancies may be explained by a general lack of trust in the reliability of corporate-level mechanisms of regulation in the area of corporate taxation. This lack of trust may be a consequence of the complexity and the technicalities surrounding this issue, or of the longstanding perception of corporate misconduct over recent years.

## 4.8 Conclusions

### *4.8.1 Contributions*

Corporate tax payments undeniably represent a CSR issue due to the broad and significant implications they have for the well-being of societies and local communities. There is still considerable disagreement with regard to how corporate taxation is positioned in the framework of implicit and explicit CSR.

In order to contribute to this debate, this work moves from the premise that the way in which a social issue is presented and discussed in the media can provide an understanding of how this issue is understood under the framework of implicit and explicit CSR. For this reason, this study has employed a content analysis of news media articles on corporate taxation published between 1999 and 2018 in eight major newspapers in the UK. These articles were coded for correspondence with some indicators and predicting factors of implicit and explicit CSR, as deductively derived from previous literature.

Consequently, this study broadens our knowledge of corporate taxation as a CSR issue. Indeed, it offers a comprehensive overview of the evolution of the CSR approach to corporate taxation over the last 20 years. Taken together, the findings suggest that there has not been a unique and static CSR approach to deal with corporate taxation, but rather that various versions can be distinguished, each characterised by a certain configuration in the use of CSR language, in the attribution of responsibility to governmental or corporate actors, and in the use of corporate- or collective-mechanisms of regulation. Additionally, this study provides evidence that although corporate taxation is a long-standing area of implicit responsibility, over the last few years this approach has been contaminated with some traits of explicit CSR, such as the use of the language of CSR (especially among stakeholders) and the widespread attribution of responsibility for tax scandals to the inappropriate behaviour of companies. This explicitization has mainly been constrained by companies' reluctance to refer to their tax responsibilities above and beyond the duty to comply with tax laws and by the lack of regulatory solutions at corporate-level as an alternative to the prevailing traditional tax regulation, although the latter has recurrently been seen, at least partially, as inadequate. This does not exclude the possibility that in the following years a further drive will be seen towards a more explicit approach to responsible corporate taxation, with the institutionalisation of new corporate-level mechanisms to regulate companies' tax behaviour, and the growing awareness among companies that a more explicit CSR approach to taxation is the morally right thing to do and/or an instrumentally sound behaviour.

The analysis of the evolution of the CSR approach to corporate taxation also has some implications for the same framework of implicit and explicit CSR. Indeed, while tracking the evolution of the CSR approach to corporate taxation different hybrid configurations of CSR have been identified, each characterised by a particular combination of elements which are typical of both the explicit and the implicit approach. Furthermore, the framework of implicit and explicit CSR can be better understood as a continuum ranging from the purely implicit and the purely explicit configuration, rather than as a dichotomy. Between these two extremes there is a vast array of hybrid CSR configurations, each characterised by a particular combination in the use of the CSR language, in the adoption of corporate- and collective-level mechanisms of regulation, and in the blaming of corporate or governmental actors for scandals. This continuum can be conceptualised as punctuated by three main configurations: 1) the '*hybrid implicit CSR approach*'; 2) the '*hybrid CSR approach*'; and 3) '*hybrid explicit CSR approach*'.

First, under the '*hybrid implicit CSR approach*' the implicit approach prevails but is contaminated with some traits of explicit CSR (e.g., the use of the language of CSR, the adoption of corporate-level mechanisms of regulation or the blaming of companies in the event of scandals). This approach may be deemed as appropriate, for instance, when a social issue is regulated by an incomplete, inaccurate, or ambiguous legal system which offers companies many opportunities to circumvent the mandatory requirements and shirk their social responsibilities. In this case, companies are expected to be committed to complying with both the letter and the spirit of the regulation and to publicly disclose their approach to compliance with the law, in order to reassure their stakeholders that the social goals of the regulation are achieved. Second, the '*hybrid CSR approach*' is characterised by the coexistence of the implicit and the explicit configuration of CSR, which work as complementary, rather than alternative, approaches, to deal with a certain social issue. This configuration may be appropriate when a social issue is too complex to be regulated only by governmental or corporate actors, or when there is the need for a certain degree of uniformity between CSR policies and activities. In this case, governments may impose by law a minimum level of CSR, introducing broad and general requirements which allow companies the discretion to translate them into more detailed and targeted actions, according to the specific expectations of their stakeholders. Inevitably, failing to enhance the social good will be seen as a matter of shared responsibility between governmental and corporate actors. Finally, under the '*hybrid explicit CSR approach*' the explicit approach is dominant, but it is combined with some traits of implicit CSR (e.g., the absence of the language of CSR, the adoption of collective-level mechanisms of regulation or the blaming of governmental actors in case of scandals). This approach may be appropriate when a social issue is promoted and publicized by companies as an area of CSR, but there is the need for stakeholders to identify and understand similarities of, and differences between, the social performance of different companies. Subsequently, to increase comparability, governments may introduce a common and mandatory general scheme that regulates corporate disclosure.

Finally, it is important to remark that these versions of CSR should not be interpreted as consequential stages that follow one another over time in one direction or another (i.e., from implicit to explicit CSR, or vice versa). Indeed, the results of this study have revealed that the evolution in the CSR configuration to deal with a social issue is not always characterised by a linear and continuous process of implicitization or explicitization. Conversely, more explicit and more implicit versions of CSR can alternate over the years and change in the configuration of their components (i.e., language, mechanism of regulation, and attribution of responsibility) without following a linear and predictable path.

### *4.8.2 Limitations and suggestions for future research*

This work clearly has some limitations. First, the current investigation is limited by the use of the media as a lens. However, the way in which an issue is presented in the news media may be influenced by the opinions, interpretations, and values of the newspapers and the journalists themselves, and then fails to reflect, at least partially, the 'real world'. Second, the current study has only examined articles published by UK newspapers, and, consequently, the findings may not be transferable to other national settings.

This research has thrown up many questions in need of further investigation. First, future studies on the current topic are required in order to verify whether the national setting influences the dominant CSR configuration to deal with corporate taxation. For example, scholars may analyse the role of the national culture, or other institutional determinants such as the level of modernisation or economic development, or the quality of the regulatory environment. Second, it is recommended that further research be focused on companies. For instance, there is the need to investigate the determinants and the antecedents of the dominant CSR approach to responsible corporate taxation within a firm, as well as its consequences, for instance in terms of reputation and financial value. In order to establish how firms frame the issue of corporate taxation in the framework of implicit and explicit CSR, future research may focus on corporate disclosure on taxation. Additionally, further work is required to establish whether the transition towards a more explicit approach to responsible corporate taxation can contribute towards tackling corporate tax avoidance. Thus, future research may analyse the relationships between the degree of explicitness/implicitness of firms' approach to corporate taxation and their level of tax avoidance. Finally, researchers may concentrate on the institutional level, and investigate the relationship between the degree of explicitness/implicitness of the CSR approach to corporate taxation that prevails in a country, as operationalized and measured using the media, as well as its evolution over time, and the amount of tax paid by companies in that country. Towards this end, it would be interesting to focus on the GAFA companies[15], which are among the most aggressive in tax practice, even if they are all from a country (the USA) with a tradition of explicit CSR[16]. Does this behaviour reflect a contradiction? Or keeping corporate taxation outside the (explicit) CSR agenda is considered a legitimate choice?

[15] GAFA is an acronym for the most powerful tech companies: Google, Apple, Facebook and Amazon.
[16] I am grateful to one of the reviewers for this suggestion.

# 5.

# THE PATH TOWARDS CORPORATE TAXATION AS A CSR ISSUE: THE ROLE OF TAX RESPONSIBILITY INITIATIVES

## 5.1 Introduction: CSR as a form of regulation

The content analysis of news media articles presented in chapter 4 has revealed the recent emergence of some initiatives which seek to drive the transition towards a more explicit approach to responsible taxation. These 'tax responsibility initiatives', whether public or private in nature, either voluntary or mandatory in type, provide rules, principles and standards to integrate CSR thinking and practices into a firm's tax behaviour. They contribute towards creating new demands on businesses for a more responsible approach to taxation. The emerging infrastructure provided by the tax responsibility initiatives is the focus of this chapter, which aims to achieve a better understanding of what is considered a socially responsible behaviour in corporate taxation.

By doing so, this chapter is embedded in the stream of literature which understands and conceptualises CSR as a form of regulation of business behaviour rather than just as a managerial tool to regulate a firm's social impact and its relationships with stakeholders (Sheehy 2015; Cominetti and Seele 2016; Gatti et al. 2019). Sheehy (2015) defines CSR as "a socio-political movement which generates private self-regulatory initiatives, incorporating public and private international law norms seeking to ameliorate and mitigate the social harms of and to promote public good by industrial organisations" (p. 639). At the heart of the debate of CSR as a form of regulation there are questions usually posed in the following terms: "Should CSR be regulated through state regulation, code of conduct, or self-regulation? Should it be regulated in a voluntary way or an obligation to corporations?" (Waagstein 2011, p. 455).

The regulation of CSR can take different forms, including "self-regulation, private regulation, and publicly imposed regulation" (Gatti et al. 2019, p. 964). A robust categorisation of the different CSR-regulation forms is developed by Cominetti and Seele (2016). On the one hand, there are *soft law* initiatives, which imply non-binding rules and

voluntary guidelines, characterised by a low level of formalisation and no sanctions for non-compliance. On the other end, there is the *hard law* category, which comprises mandatory laws with a high level of formalisation and strong sanctions in case of non-compliance. In between these two extremes there may be voluntary CSR initiatives characterised by a high level of formalisation (i.e., *hard-soft* law category), or mandatory CSR standards characterised by a low level of formalisation and weak sanctions (i.e., *soft-hard* law category). Therefore, the regulation of CSR involves both private and institutional actors who, using different instruments and driven by different motivations, seek to encourage and guide firms towards more socially responsible conducts.
Consequently, in order to achieve a more nuanced understanding of what a CSR approach to corporate tax looks like in practice, this chapter investigates the role and the involvement of public and private actors in developing rules, principles and standards to regulate firms' tax behaviour. To this end, the main tax responsibility initiatives are identified, discussed, and reviewed to gain a deeper insight into the key pillars of socially responsible tax practices.

## 5.2 Private initiatives on tax responsibility

Voluntariness is a central tenet of most CSR definitions. According to this principle, CSR implies "that the business should perform above regulatory requirements, which will set the minimum performance level deemed acceptable" (Dahlsrud 2008, p. 6). As a consequence of the centrality of voluntariness, the regulation of CSR has been traditionally dominated by non-state actors. Cominetti and Seele (2016) reveal that currently about 88.2% of CSR standards consist of voluntary initiatives.
From this perspective, CSR represents a form of 'private regulation' (Mena and Palazzo 2012; Sheehy 2015) or of 'governance without a state' (Börzel and Risse 2010). Private business regulation represents an effort to develop new nonstate mechanisms for governing global firms and compensate for the weakness or failure of government, in those area where neither nation states nor intergovernmental organisations are willing or able to intervene (Mayer and Gereffi 2010; Grabosky 2013). As noted by Vogel (2010, p. 73), private regulation is rooted in the perception that "economic globalization has created a structural imbalance between the size and power of global firms and markets

and the capacity and/or willingness of governments to adequately regulate them” Vogel (2010, p. 73).

Although private regulation occurs in several areas of global economic governance (Bogel 2010), the CSR field has seen the emergence of several initiatives aimed at regulating corporate behaviour with regard to social and environmental issues. These CSR initiatives (Rasche et al. 2012) – also known as ‘standardized ethics initiatives’ (Gilbert and Rasche 2007) or ‘international accountability standards’ (Gilbert et al. 2011) – provide organisations with voluntary (usually global) principles and standards defining norms, methods, and procedures to systematically assess, measure, and/or communicate organisational behaviour with regard to social and environmental issues.

As any private regulatory initiatives, also CSR private regulation is characterised as *soft law*. Consequently, these initiatives create rules and standards which are not enforceable through legally binding obligations. They rely on voluntary compliance, rather than on sanctions that can be authoritatively and legally applied, as is the case in traditional *hard law* governance. In other terms, the emphasis in soft law initiatives “is upon gaining a moral commitment from participants, and upon using information, education, technology sharing, and perhaps peer group pressure, as means to achieve this end” (Sinclair 1997, p. 534). Nevertheless, categorising private CSR initiatives as soft law does not mean that they are completely voluntary. Gilbert et al. (2011) identify at least three elements that contribute to put firms under pressure for adopting voluntary CSR standards: 1) CSR standards can be referred to by governmental regulation for defining key terms; 2) the adoption of CSR standards can be a prerequisite for entering business relationships in certain industries; 3) ignoring CSR standards can weaken a firm’s stakeholder relationships.

Private CSR initiatives are typically developed by both multi-stakeholders networks, or by single non-state actors, such as NGOs, socially responsible investors, consultancy firms, and business associations. In the last decade, these actors have been increasingly involved in designing regulation to improve responsible tax behaviour in the form of non-mandatory principles, standards and guidelines. These initiatives have contributed to pressure global firms to voluntarily take the path towards responsible tax practices.

### *5.2.1 The role of multi-stakeholder initiatives*

In response to the growing pressure for addressing urgent social and environmental problems, corporate and non-corporate actors have begun to collaborate to find common solutions for the well-being of the wider society. These initiatives not only create space for dialog among various actors but also facilitate the development of new regulatory standards and procedures in those areas where national and international institutions are either unwilling or uncapable to regulate. In the academic literature, these collective arrangements that "bring together a range of stakeholders to create governance solutions for social and environmental problems" (Moog et al. 2015, p, 470), have been variously named, but the most used term is 'multi-stakeholder initiatives' (MSIs) (Mena and Palazzo 2012; Rasche 2012; Moog et al. 2015; Zeyen et al. 2016; Fransen and Kolk 2017; Huber et al. 2019; Soundararajan et al. 2019).

The main characteristic of a MSI is that it brings together a multiplicity of actors who collaborate to find a common approach for solving a social or environmental issue that affects all of them (De Bakker et al. 2019). According to Mena and Palazzo (2012, p. 535) MSIs "result from the cooperation of at least two of the following actors: governments, corporations and civil society". Additionally, participants of an MSI might include representatives from labour unions, trade associations, and ethnic or community organisations, scientists or other academics. An MSI usually emerges when a particular problem becomes urgent for a number of stakeholders who believe they need to do something about it but cannot approach it on their own (Airike et al. 2016). Scholars have identified the criteria for MSIs to be legitimate mechanisms setting global rules, focusing on the legitimacy criteria from both the input (e.g., inclusion, procedural fairness, consensual orientation, and transparency) and the output perspective (rule coverage, efficacy, and enforcement) (Mena and Palazzo 2012; Hahn and Weidtmann 2016; Martens et al. 2019).

Existing CSR MSIs are usually distinguished into four groups according to their outcome and level of engagement (Waddock 2008; Gilbert et al. 2011; Mena and Palazzo 2012; Rasche et al. 2012):

a) *Principle-based MSIs*: develop principles and guidelines to address social and environmental problems and serve as learning platforms where organisations can exchange experiences, signal their commitment, and learn from each other. The largest principle-based corporate responsibility initiative in the world is the United Nations Global Compact (UNCG). Other notable examples include the Caux Roundtable's Principles and the Clarkson Principles of Stakeholder Management, whereas well-known principles developed for specific industries are the UN Principles for Responsible Management Education (PRME) and the Equator Principles.

b) *Certification MSIs*: issue labels and certifications for those organisations that comply with sets of predefined standards and rules. The most widespread certification standard for social issues is the Social Accountability 8000. Other notable certification bodies include the B-Corp movement, Transfair, Fair Trade International, Fair Labor Association, as well as some industry-specific bodies such as Marine Stewardship, GoodWeave and the Forest Stewardship Council.

c) *Reporting MSIs*: provide comprehensive and standardized indicators and guidelines that corporations can use to standardize their non-financial reporting and to communicate their social and environmental practices to stakeholders. The global standard for non-financial reporting is the Global Reporting Initiative (GRI). A recent reporting initiative is the International Integrated Reporting Framework launched by the International Integrated Reporting Council (IIRC) in 2013.

d) *Process MSIs*: define managerial methods and processes, as well as behavioural standards, in the form of codes of conduct, rules and recommendation to guide companies on their path towards sustainability and social responsibility. The most prominent examples are the AccountAbility's AA 1000 Series of Standards and the ISO 26000 Standard on social responsibility, which provide best-practices and possible courses of action on the implementation of responsible management practices of various kinds of organisations.

As shown in Table 5.1, the issue of corporate taxation has been covered and addressed in different ways by these initiatives which, consequently, provide different levels of regulation of responsible business conduct in taxation.

**Table 5.1** Corporate taxation within the major CSR initiatives

| CSR initiative | Scope | Coverage of corporate taxation |
|---|---|---|
| AccountAbility's AA1000 | Internationally accepted series of standards that provide a principles-based framework and guidance for companies to demonstrate leadership and performance in accountability, responsibility and sustainability. | Not covered. |
| B Corp Certification | Certification administered by the non-profit B Lab based on a rigorous assessment of a company's impact on its workers, customers, community, and environment. | Briefly mentioned.<br>Tax avoidance is included among the controversial issues and the B Lab has created a framework for evaluating tax strategies against the requirements of B Corp Certification |
| Equator Principles | Risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk. | Not covered. |
| Fair Labor Association | International standards for protecting workers' rights and improving working conditions globally. | Not covered. |
| Fair Trade International | Fair-trade standards that establish social, economic and environmental criteria for farmers, workers and other stakeholders. | Briefly mentioned.<br>The '*Fairtrade Standard for Gold and Associated Precious Metals for Artisanal and Small-Scale Mining*' mentions the payment of taxes as required by applicable legislation among the general requirements to participate in the Fairtrade system. |
| Forest Stewardship Council | Internationally recognised standards that promote environmentally appropriate, socially beneficial, | Briefly mentioned. |

| | | |
|---|---|---|
| | and economically viable management of the world's forests. | The document '*Structure and Content of National Forest Stewardship Standards'* contains a set of indicators for the development of national Forest Stewardship Standards. The list of applicable laws to be complied with (Principle 1) mentions legislation covering income and profit taxes, use of tax havens and transfer pricing. |
| Global Reporting Initiative | Global standards for voluntary reporting on economic, social and environmental issues. | Specifically addressed.<br>In September 2019, the GSSB approved the new Standard on tax transparency ('*GRI 207: Tax 2019'*). |
| GoodWeave | Global standard and certification covering child labour, forced labour, and bonded labour. | Not covered. |
| International Integrated Reporting Framework | Framework that promotes a more cohesive and efficient approach to corporate reporting that takes into account the full range of factors affecting the ability of an organisation to create value over time. | Not covered.The payment of tax is included among the elements that should be disclosed in the area dedicated to the outcomes of the business model:<br>"An integrated report describes key outcomes, including: both internal outcomes (e.g., employee morale, organisational reputation, revenue and cash flows) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects)" (IIRC 2013, p. 26) |
| ISO 26000 | Standard that provides guidance on the underlying principles, the issues and the core subjects of social responsibility, as well as on how to integrate socially responsible behaviour into an organisation. | Briefly mentioned.<br>Corporate tax payments are covered in Issue 5 '*Wealth and income creation*' of the core subject '*Community involvement and development*':<br>"Wealth and income creation also depend on a fair distribution of the benefits of economic activity. Governments rely upon organisations meeting their tax obligations to obtain revenues for addressing critical development issues. […] An organisation should fulfil its tax responsibilities and provide authorities with the necessary information to correctly determine taxes due" (ISO 2010, p. 66-67). |

| | | |
|---|---|---|
| Marine Stewardship | Standards and certifications that provide best practices, codes, and guidelines on sustainable fishing. | Not covered. |
| Principles for Responsible Management Education | Principles and guidance to balance economic and sustainable goals in business and management schools. | Not covered. |
| SA 8000 | Social certification programme that provides a holistic framework on the fair treatment of workers. | Not covered. |
| The B Team | Association of global business and civil society leaders working to change the model of leadership and the role of business in society. | Specifically addressed.<br>In February 2018, the B Team delineated a set of '*Responsible Tax Principles*' in a report entitled '*A New Bar for Responsible Tax*'. |
| Transfair | Certification of fair-trade products to eliminate poverty and enable sustainable development for farmers, workers, their families, and their communities around the world. | Not covered. |
| United Nations Global Compact | Platform to encourage and help companies find solutions to social and environmental problems based on 10 universal principles covering the areas of human rights, labour rights, environment and anti-corruption. | Not covered. |

First, most of the MSIs do not even mention corporate taxation. The lack of specific guidance on corporate tax conduct can be explained by the fact that most of these MSIs deal with specific issues (such as GoodWeave that focuses on child labour), or offer such general principles of responsible business conduct that they can be implicitly extended also to corporate taxation. For instance, the first principle of the UNGC states that "Businesses should support and respect the protection of internationally proclaimed human rights"[17]. Provided that substantive connections exist between the payment of corporate tax and the protection and the fulfilment of human rights (e.g., IBAHRI 2013), this principle implicitly requires companies to take voluntary actions to consider the impact of their corporate tax policies on human rights and avoid harmful tax practices. The UN Global Compact has recently acknowledged that the issue of taxation is steadily rising on the corporate sustainability agenda and in 2016 it hosted a webinar jointly with the Business & Human Rights Resource Centre to "provide a briefing on the link between tax and human rights, the challenges associated and new resources that have been developed for governments, investors, businesses and NGOs on emerging best practices related to tax and human rights"[18].

Second, some CSR initiatives (i.e., the B Corp Certification, Fair Trade International, Forest Stewardship Council, International Integrated Reporting Framework, and ISO 26000) only briefly mention paying tax as a norm of responsible business conduct, without providing further guidance. However, in these initiatives corporate taxation is approached from a purely legalistic perspective. For instance, corporate taxation has been included in the assessment process for obtaining the B Corp Certification, which measures a company's entire social and environmental performance. Indeed, the B Lab, the non-profit organisation that administers the B Corp Certification, recognizes that businesses have an obligation to contribute their share of taxes in the society where they operate and, then, that it is essential to consider a firm's tax strategies to understand whether it meets the B Certification's standards. For this reason, the DQ item (DQ2.1) of the B Lab's Disclosure Questionnaire, a negative screen used by B Lab as part of its B Corp certification process, includes the following true/false statement related to tax: "The Company has not reduced or minimized taxes through the use of corporate shells or

[17] See https://www.unglobalcompact.org/what-is-gc/mission/principles.
[18] See https://www.unglobalcompact.org/take-action/events/431-business-and-responsible-taxation.

structural means". Additionally, the B Lab has developed a working framework for the evaluation of tax strategies that assesses "whether 1) the amount of overall taxes paid over time appropriately reflects the actual amount of income generated by the business; and, 2) the amount of taxes paid over time in each jurisdiction appropriately reflects the actual operations of the business in that jurisdiction"[19].

Finally, only two CSR MSIs have developed comprehensive standards and guidelines for responsible corporate taxation, which are the GRI and the B Team.

The GRI was established in 1997 as a joint project by the US Coalition for Environmentally Responsible Economies and the UN Environment Programme. Its main objective is to "provide information guidelines to present a clearer vision of the human and ecological impacts of an enterprise" (Marimon et al. 2012, p. 134). Based on a multi-stakeholder approach, including a broad collation of actors from the business, NGOs, academic and governmental sectors, the GRI has become the preeminent global framework for voluntary corporate sustainability reporting (Etzion and Ferraro 2010; Levy et al. 2010). In 2017, the Global Sustainability Standards Board (GSSB), the GRI's independent standard-setting body, initiated a project to promote greater transparency on how organisations approach their tax responsibility. In delineating the motivations behind this project, the GSSB noted that:

> "The global discussion around tax transparency has gained momentum in recent years, with leading intergovernmental organisations, civil society groups, and investors calling for increased disclosure on corporate tax and payments to governments […] Greater transparency can be one tool to help ensure public and stakeholder confidence that companies employ fair tax strategies and demonstrate their contributions to society in the regions where they operate. This issue is closely linked to the sustainable development agenda, since corporate tax payments can play an important role in helping governments to address issues such as poverty and wealth inequality" (GRI 2017, p. 2).

Between December 2018 and March 2019, an exposure draft of the Standard was made available for public comment and over 80 submissions were received from approximately 110 organisations. In September 2019, the GSSB approved the new tax Standard, known as '*GRI 207: Tax*'. It represents the first global standard to help an organisation "understand and communicate its management approach in relation to tax, and to report its revenue, tax, and business activities on a country-by-country basis" (GRI 2019, p. 4). With this new Standard, GRI aims to pave the way for more informed public debate on

[19] See https://blab-mktg-bcorporation-production.s3.amazonaws.com/B_Lab_Framework_For%20Evaluating_Tax_Strategies_for_B_Corp_Certification.pdf.

tax and its contribution to sustainability, and to enable better policy and investment decisions. The Tax Standard will be effective for reports published after 1 January 2021. This means that the reporting organisation will be required to report on GRI 207 from 1 January 2021 onwards if it has identified tax as a material topic.

The B Team is an association of business and civil society leaders with the stated purpose of creating "new norms of corporate leadership that can build a better world"[20]. Among its various causes and initiatives, the B Team is also involved in advancing responsible tax practices. At the heart of this action, there is the acknowledgement among the leaders of the B Team that "modern, inclusive economies depend on fair, effective tax systems. These help create the conditions necessary for responsible investment and sustainable growth, which will be critical for meeting the UN's Sustainable Development Goals (SDGs) and helping to shape a more secure and stable society for future generations" (B Team 2019, p. 1). In order to lead a drive towards a new business consensus around a responsible approach to tax practice, in February 2018, the B Team delineated a set of '*Responsible Tax Principles*' in a report entitled '*A New Bar for Responsible Tax'*, presented at the 'Tax & SDG' Conference at the United Nations Headquarters. These principles, which were developed in collaboration with leading companies, civil society organisations, institutional investors and international institutions, offer a clear framework for responsible tax practices covering three main areas: approach to tax management, relationship with stakeholders, and reporting. At the time of writing (November 2020), the Principles have been endorsed by 16 multinational companies, including Allianz, BHP, A.P. Moller - Maersk, Natura Cosméticos, Repsol, Royal Dutch Shell Plc, Safaricom, Unilever and Vodafone Group Plc. Through this framework for leadership on responsible tax, the B Team and the companies who have signed up to the Principles, continue working to "create a global environment where responsible tax practice becomes a well understood and widely practiced business norm" (B Team 2019, p. 4).

[20] See www.bteam.org.

### 5.2.2 *The role of NGOs*

Much of the pressure for companies to conduct their tax operations in a more responsible and ethical way has arisen from a growing involvement of NGOs in developing and promoting private regulatory initiatives on responsible tax conduct.

NGOs are usually defined as "social, cultural, legal, and environmental advocacy and/or operational groups that have goals that are primarily non-commercial" (Kourula and Laasonen 2010, p. 36) or as "non-profit groups that combine resource mobilization, information provision, and activism to advocate for changes in certain issues areas" (Spar and La Mure 2003, p. 79). Fundamentally, NGOs are neither governmental nor business actors, that include activist groups, special interest groups, charities, religious groups, protest groups and other non-profit organisations, who are "organized primarily around ideas: around a collective commitment to some shared belief or principle" (Keck and Sikkink 1998, cited in Spar and la Mure 2003, p. 79).

To achieve their goals, NGOs usually engage "in activities that seek to convince other parties (especially governments and firms) to change policies or practices" (den Hond 2010, p. 175). However, recent years have witnessed a dramatic shift in the focus of their campaigning towards major multinationals. For this reason, some observers see NGOs as a "counterweight to business and global capitalism" (Doh and Guay 2006, p. 51) and consider the rising influence of NGOs in corporate behaviour as the most significant development in international affairs in the last decades (Doh and Guay 2006). As a consequence, the management literature has widely discussed the role of NGOs in monitoring businesses and calling upon corporate programmes and initiatives to promote the public good (e.g., Hendry 2006; Doh and Guay 2006; den Hond and de Bakker 2007; Aguilera et al. 2007; Arenas et al. 2009; Thijssens et al. 2015).

NGOs can establish different types of relationship with target firms. These relations may fall somewhere on a continuum with adversarial relationships, at one end, and partnership at the other (Hendry 2006; Fassin 2009; Arenas et al. 2009; Lassonen et al. 2012). On the one hand, adversarial targeting consists of attempting to force a target company to change without enlisting its cooperation. Adversarial strategies include both informative actions mainly based on threats of negative publicity (e.g., letter writing campaigns, denunciation campaigns, protest actions and moral stigmatisation through naming and shaming) or more aggressive activities that put companies under economic pressure (e.g., boycotts, sabotage, selective purchasing and litigation) (Fassin 2009). On the other hand, without abandoning advocacy and campaigning, today's NGOs also engage in more collaborative and partnering strategies with corporations (Kourula and Laasonen 2010; Baur and Palazzo 2011; Laasonen et al. 2012; Burchell and Cook 2013). These strategies include the formation of alliances or partnerships with companies for the purpose of providing technical assistance, elaborating commonly agreed certification schemes and promoting and designing CSR standards.

In recent years, the agenda of a growing number of NGOs has devoted increasing attention to the issue of corporate taxation. Several tax justice campaigns have been launched to advocate a change in companies' approach to tax responsibility (Elbra 2018), contributing to generate political salience around this issue (Dallyn 2017) and to transform corporate taxation "from a narrow technical discussion for specialists to one that is overtly ethical and social" (SustainAbility 2006, p. 12). Key NGOs which are particularly active in the area of corporate taxation include both organisations with a broad social justice and/or environmental mission, such as ActionAid, Christian Aid and Oxfam, as well as organisations exclusively focused on tax justice, such as Citizens for Tax Justice[21] - that works to ensure ordinary people have a voice in the development of fair and sustainable tax policies, against the armies of special interest lobbyists for corporations – and the Tax Justice Network[22] – that is an independent international network launched in 2003 whose core mission is to push for systemic change on a wide range of issues related to tax, tax havens and financial globalisation. Additionally, some NGOs have joined together to work in alliances, coalitions and networks dedicated to tax justice. The most important are the Global Alliance for Tax Justice[23] - that was founded in 2013 and campaigns for greater transparency, democratic oversight and redistribution of wealth in national and global tax systems - Publish What You Pay[24] - that campaigns for an open and accountable extractive industries sector– and the European Network on Debt and Development (Eurodad[25]) - that is a network of 50 civil society organisations that, among its goals, advocates for greater transparency and enhanced coordination of

[21] For further information see www.ctj.org.
[22] For further information see www.taxjustice.net.
[23] For further information see www.globaltaxjustice.org.
[24] For further information see www.pwyp.org.
[25] For further information see www.eurodad.org/taxjustice.

taxation systems worldwide and ensures that international institutions and treaties do not constrain developing countries' policy space on this area.

The motivations behind NGOs' mobilisation in corporate taxation reflect the typical drivers of NGOs. First, many NGOs are generally driven by ethical motivations (Fassin 2009) and, consequently, have the mission to "make the world a better place" (Aguilera et al. 2007, p. 852). From this perspective, NGOs conceive corporate tax payments as a vital contribution for supporting the sustainment and development of society. In this context, NGOs address corporate taxation mainly to give voice and serve the interests of local communities, especially in developing countries where the impact of corporate tax avoidance is extremely harmful. For instance, ActionAid's '*Tax Power*' campaign aims to "fight for the integrity of the tax system, and the revenues it is supposed to provide for governments and poor people…What we seek are fair rules governing corporate taxation, ensuring that everyone pays their way to promote development and the decent public services on which both business and ordinary people rely" (ActionAid 2013a, p. 5). Similarly, Christian Aid's tax justice initiatives are driven by a vision of the world "where the existing values, norms and practices on fiscal and financial matters stem from just power relations and cooperation, and enable states and communities - especially those in developing countries - to enjoy their fair share of wealth" (Christian Aid 2013, p. 2).

To achieve their tax justice-related goals NGOs have leveraged on different tactics. Having reviewed a number of NGOs reports on tax justice (see Appendix B), it has emerged that NGOs' tax initiatives are mainly directed to: a) the general public, to increase social awareness of the human costs of corporate tax avoidance; or b) to governmental and intergovernmental institutions, to lobby for new regulations on corporate taxation; or c) to corporations, to pressure for changes in firms' tax behaviour

*a) Raising public awareness of the social impact of corporate tax policies*

First, tax justice NGOs seek to raise public awareness of the societal impact of corporate tax behaviour by framing the issue in a manner that engages the public and appeals to emotions and moral values. The most common frame is to depict corporate tax avoidance as harmful to the most vulnerable in developing countries where corporate tax revenue is one of the most important, sustainable and predictable sources for providing vital services, fighting poverty and funding development (Open Society Institute of Southern Africa et al. 2009; ActionAid 2013b; 2013c; Christian Aid and Enough Food for

Everyone 2013; ActionAid and Tax Justice Network Africa 2016). Then, many reports have 'named and shamed' one or a few specific companies (e.g., ActionAid 2012; 2013d; 2015b; 2015c; Tax Justice Network 2016; Oxfam 2017a; 2018), or a larger group of major companies, such as the UK FTSE 100 companies (e.g., ActionAid 2011; Oxfam 2019) or a whole industrial sector (e.g., Oxfam 2017b), for the devasting effects of their tax strategies on society. In all these reports, multinationals are not accused of violating tax laws, but of conducting their tax affairs in irresponsible and ethically questionable ways that cause or exacerbate various social problems, including global poverty, hunger and inequality. For instance, in the 2013 report '*Sweet Nothings*' ActionAid estimates that the tax revenues lost in Zambia due to the tax avoidance activities of a Zambian subsidiary of the Associated British Foods (ABF) group could likely "cover the entire cost of the interventions needed to tackle child malnourishment in Zambia" (ActionAid 2013e, p. 3).

*b) Lobbying governments to deliver tax reforms*

A second typical tactic used by tax justice NGOs to induce a change in corporate tax behaviour consists of lobbying governmental and intergovernmental institutions (e.g., the OECD and the EU) in the belief that the "basis of a fairer, better-functioning tax system is the reform of tax laws and standards, both domestic and international, and their effective implementation" (ActionAid, Christian Aid, and Oxfam 2015, p. 10). In particular, governments are criticized for rigging tax rules in favour of MNEs, without taking into proper account the interests of developing countries (ActionAid 2015d; Oxfam 2014). Oxfam (2016, p. 29) denounces representatives of global corporations and their tax advisors for often having "an unjustifiably disproportionate influence over government and public policy making where corporate taxation is concerned". Furthermore, NGOs advocate for government-led reforms and new binding rules in various tax-related areas (ActionAid 2013a; 2015d; 2019; Oxfam 2015; 2016; 2017c; 2019; Eurodad 2015; 2017). The most common recommendations include: 1) putting an end to tax competition and to the race to the bottom; 2) ending the use of tax havens; 3) reallocating tax rights between countries; 4) ensuring that tax is paid where the economic activities take place; 5) reviewing tax rules and tax treaties not to harm developing countries; 6) enforcing mandatory tax transparency; 7) stopping discretionary tax incentives; 8) developing a multilateral information-exchange platform.

*c) Driving companies towards the tax-as-contribution approach*

The most common tactic used by tax justice NGOs is to appeal directly to corporations to promote and facilitate more ethical and responsible tax conduct. Indeed, NGOs acknowledge that the mission to achieve tax justice requires not only government-led reforms, but also a change in corporate culture and capabilities around tax. NGOs highlight that although better legal rules will constrain companies' tax decision-making more effectively than they do at present, within any reformed system, "there will still be room (particularly for MNCs) to manoeuvre – to make choices between business structures and filing positions which result in different outcomes" (ActionAid, Christian Aid, and Oxfam 2015, p. 11).

In order to guide voluntary behaviour changes and more responsible tax choices, NGOs have not only participated to the above discussed MSIs, but they have also developed and promoted their own principles and standards that define 'what good is like' within key areas of corporate tax behaviour (ActionAid, Fairfood, and FairPensions 2011; Oxfam IBIS and Global CSR 2012; ActionAid, Christian Aid, and Oxfam 2015; ActionAid 2015a). For instance, in a discussion report published by ActionAid, Christian Aid, and Oxfam (2015, p. 13), tax-responsibility is defined as "an ongoing process of transparency, assessment, and progressive and measurable improvement in dialogue with a broader range of stakeholders than merely revenue authorities". These principles are intended to be "directions of travel" (ActionAid, Christian Aid, and Oxfam 2015, p. 8) to put companies on the path towards the more responsible tax practices.

One of the key standard setting NGOs' initiatives in the field of corporate taxation is the UK's Fair Tax Mark (FTM) (Murphy 2014; Christians 2018; Elbra 2018). The FTM is a standard setting body, founded and launched by the Tax Justice Network in 2014 with the stated aim of promoting ethical tax policies and rewarding good behaviour among corporate taxpayers[26]**.** The FTM's mission is inspired by the following argumentations:

> "Polls of consumers and the public consistently reveal one of their biggest concerns to be whether companies are paying their fair share of tax. And that's why the Fair Tax Mark exists: to support and celebrate those companies doing the right thing" (Fair Tax Mark 2016, p. 2).
>
> "The Fair Tax Mark provides you with confidence that your business is doing the right thing on tax, no matter its size or sector. It helps your stakeholders know you can be trusted on this crucial issue – and gives you a credible way to communicate this" (Fair Tax Mark 2016, p. 5).

[26] See www.fairtaxmark.net.

The FTM encourages and celebrates companies that demonstrate responsible tax behaviour by awarding them a Mark, which is a "certification standard for firms to adopt in order to indicate their tax planning practices are 'fair'". The certification scheme is based on a standardized scoring system of a company's tax profile that is guided by two principles:

a) a business/organisation should pay the right amount of tax (but no more) in the right place at the right time, according to the spirit of the law of the jurisdiction in question;
b) a business/organisation should be able to be held to account on its tax behaviour by the public, based on the disclosure of sufficient information.

An organisation's compliance with these principles is assessed against a set of predefined criteria and standards, covering four areas: tax transparency; country-by-country reporting; tax policy, implementation and compliance; tax rate and disclosure (Fair Tax Mark 2019). At the time of writing (November 2020), over 50 organisations have been accredited with a FTM, including FTSE-listed companies, co-operatives, social enterprises and large private businesses.

Moreover, in order to encourage companies, some tax justice NGOs' reports have discussed the 'business cases' for responsible tax behaviour (ActionAid, Fairfood and Fair Pensions 2011; Christian Aid 2011; ActionAid 2013d). First, the payment of tax is framed as an investment to support the development of societies in which companies operate that provide crucial resources for any firm's success (e.g., well-functioning transport network and power system, an educated and healthy workforce, consumers with purchasing power and an efficient legal system). Second, socially responsible and ethical tax policies are framed as a shield to protect companies from the significant risks that arise when their tax practices are considered irresponsible, including reputational risks, regime risks (e.g., risk of litigation and of losing access to government contracts) and financial risks (e.g., uncertainty about future tax liabilities).

### *5.2.3 The role of socially responsible investors*

A second stakeholder category which has played a major role in developing rules and behavioural standards in the context of corporate taxation are socially responsible investors (SRIs).

Despite its heterogeneity at terminological, definitional, strategical and practical level (Sandberg et al. 2009), the main characteristic of socially responsible investments is the integration of certain non-financial concerns, such as ethical, social and/or environmental issues, into the investment process (Sparkes 2001, p. 201). So, for instance, the Forum for Sustainable and Responsible Investment defines socially responsible investments as investments that "consider environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact". Similarly, in the academic literature, the term socially responsible investments commonly refers to the "practice of integrating social, environmental, or ethical criteria into financial investment decisions" (Cowton and Sandberg 2012, p. 142).

Over the last decades, socially responsible investments have entered the mainstream of investment practice (Sparkes and Cowton 2004). Based on the biennial report on socially responsible investments conducted by the Social Investment Forum, the proportion of assets invested according to sustainable investing strategies stood in the USA at almost 26%, or $12.0 trillion, in 2017 (US SIF 2018). The movement of socially responsible investment has a strong connection with the practice of CSR since SRIs take firms' CSR-related activities into account when making investment decisions (Scholtens 2006). Furthermore, the adoption of socially responsible investments by institutional investors (i.e., large pension funds and insurance companies) can play a crucial role "in obliging or influencing quoted companies to address CSR issues" (Sparkes and Cowton 2004, p. 45). Indeed, for management it is no longer possible to ignore CSR issues when they are raised by institutional investors that represent one of the most important ownership groups of quoted companies.

A major initiative in the context of SRIs is the United Nations Principles for Responsible Investment (UN PRI), which work in partnership with UNEP Finance Initiative and the UN Global Compact. At the heart of this initiative, there are the six Principles for Responsible Investment, which are a voluntary and aspirational set of principles for incorporating environmental, social and governance issues into investment practice. The UN PRI functions as an organisational platform that supports its international network of signatories to integrate these principles into their investment and ownership decisions and engage with corporations on environmental, social and governance issues. Gond and Piani (2012, p. 66) approach the UN PRI initiative as "an enabling organisation that may help to overcome barriers to collective action by providing an infrastructure for investors to work with one another and through maintaining time-continuity of investors' engagement, thus resulting in continued pressure on targeted firms".

In recent years, corporate tax has become a material issue for investors. Behind the increasing awareness of the importance of corporate taxation for the movement of socially responsible investment there are two main factors, which reflect the typical motivation behind SRIs' behaviour (Glac 2009; Berry and Yeung 2013; Signori 2020). On the one hand, SRIs perceive corporate tax policies as having a deep impact on the well-being of society at large, since they interpret the payment of tax as "not simply a cost to be minimised, but a vital investment in the local infrastructure, employee-base and communities in which they operate" (UN PRI 2015, p. 5). Then, SRIs acknowledge that tax is a crucial element in the broader context of societal development and that "a positive return on investment does no longer outweigh the cost to society resulting from aggressive tax avoidance" (VBDO and PWC 2017, p. 11). This position reflects the ethical dimension of the movement of SRIs, who see investing as an extension of their values, social beliefs and identity are more willing to sacrifice financial performance for morality. (e.g., McLachlan and Gardner 2004). On the other hand, SRIs' concern over tax-related issues is also driven by financial motivations and the increasing realisation that a firm's tax behaviour can be a source of risks for investors. This line of reasoning reflects the economic motivation behind SRIs, who are often driven by the hope that including CSR and ethical concerns in their portfolio will be more profitable than conventional investment policies (e.g., Revelli and Viviani 2015). From this perspective, SRIs began to see tax avoidance and aggressive tax planning as posing serious risks to long-term corporate financial performance (UN PRI 2015; 2018; Action Aid 2013; Sustainalytics 2013; RobeccoSam 2018), including: 1) reputational risk due to increased public and regulatory scrutiny; 2) risk to relationship with host country that could result in approval delays or rejection of expansion projects or, in the worst scenario, the loss of the company's license to operate; 3) financial risks in the event of changes in tax regulation and enforcement; 4) macroeconomic risks and societal distortions since corporate taxes support society's tangible (i.e. infrastructure) and intangible (i.e. education, governance/legal, etc.) needs which are the basis for creating a solid foundation for economic growth and competition.

Various initiatives and projects have emerged over the last few years to assist SRIs to integrate tax-related issues in their investment choices. In 2015 the UN PRI launched a specific project on tax responsibility calling long-term institutional investors "to understand aggressive tax practices within their investments, support a shift away from tax practices that are short-term and unsustainable, advocate the creation of a level playing field in tax policy matters and communicate expectations to companies in order to drive broader societal and economic objectives" (PRI 2020, p. 6). This project represents a milestone for the increasing number of social investors who are concerned about a company's tax affairs. SRIs contribute to define guidelines and behavioural standards for companies, to be perceived as ethical and socially responsible in taxation. To this end, SRIs have been advised to integrate the tax dimension in their typical practices, namely *social screening* and *engagement*. Social screening is the "practice of excluding or including companies from investment portfolios based on a range of social and environmental criteria" (Michelson et al. 2004, p. 3). Consequently, various tax-related criteria have been developed to assist investors in avoiding investment in companies deemed as tax irresponsible (*negative/exclusionary screening*) or identifying responsible tax companies for possible investment targets (*positive/supportive screening*). For instance, VBDO (2014), the Dutch Association of Investors for Sustainable Development, has developed some principle-based guidelines that provide indications of an investee's responsible tax practices (VBDO 2014) while the UN Principles for Responsible Investment (PRI) has identified some 'red flags' that may indicate excessive tax risk in a company's operations (UN PRI 2018).

Additionally, several providers of environmental, social and government (ESG) data and socially responsible indexes have begun to include some tax-related criteria in their company analyses:

- the Dow Jones Sustainability Index (DJSI), which is the first global sustainability index based on the data self-reported by companies to RobecoSAM, an investment specialist focused exclusively on sustainability investing, incorporated 'Tax Strategy' among its assessment criteria in 2014 (RobecoSam 2019).
- Morgan Stanley Capital International (MSCI) ESG Ratings, which provides research, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities that are used in the MSCI KLD 400

Social Index, introduced a new ‘Tax Transparency’ Issue under the Corporate Behaviour theme in 2017 (MSCI 2017).

- The Financial Times Stock Exchange (FTSE) Russell ESG Rating, which is one of the new leaders in providing objective ESG exposure and performance based on publicly available data and is used for the FTSE4Good Index Series, includes ‘Tax Transparency’ as one of its 14 themes.
- Corporate Knights Global 100, which provides a ranking of the world’s most sustainable corporations, includes ‘Percentage Tax Paid’ among the 8 universal Key Performance Indicators (KPI) applicable to all businesses (Corporate Knights 2018).
- The Refinitiv ESG Score, which in 2018 incorporated the Thomson Reuters ESG Score, includes ‘Tax Fraud’ in the analysis of 23 ‘Controversy Topics’ (REFINITIV 2020).
- Sustainalytics, a policy research and consultancy firm that publishes a database on ESG data, assesses companies’ tax disclosure and transparency as part of its ESG research and in 2019 launched a new thematic engagement focused on taxation (Sustainalytics 2020).
- Vigeo-Eiris, an independent provider of ESG research and indexes for investors (i.e., the Euronext Vigeo Eiris Indices family and the Ethibel Sustainability Indices (ESI) family) assesses a company’s ‘Tax transparency’ in the Community Involvement domain under the sustainability driver “Contribution to social and economic development” (Vigeo-Eiris 2017).

As summarized in the Table 5.2, the most common indicators for the negative screening of a firm’s tax profile include the lack of tax disclosure, involvement in tax related controversies, as either revealed by the media or NGOs or investigated by regulators, a large tax gap[27] and the use of tax havens. On the other hand, positive indicators of a firm’s responsible tax behaviour include the disclosure of a geographical breakdown of revenue and tax payments (i.e., country-by-country reporting), the publication of a tax policy/strategy oversight by the board (which may include, for instance, the discussion of tax-related risks and a firm’s commitment to comply with the spirit of the law, to refrain

[27] The tax gap is the difference between the effective tax rate paid and the estimated statutory rate based on where a company generates revenues.

from tax avoidance and the use of tax havens, and to align taxation with value creation) and the adoption of appropriate governance mechanisms and risk management processes to implement the tax policy.

The screening process of tax-criteria must be supported by practices of engagement with the investee companies. Unlike screening, engagement is a more active practice with which investors seek to implement social responsibility concerns by using shareholders' ownership rights to influence corporate behaviour. Engagement can take a number of forms, such as dialogue with corporate executives over the matter at stake or filing a shareholder resolution at a company's general meeting (Sparkes and Cowton 2004). As part of its tax responsibility project, the UN PRI has developed a framework for investor-company dialogue on tax and has carried out an investors' collaborative engagement with corporations on tax responsibility and tax transparency over 2017-2019, to better understand the discrepancies between corporate disclosure and investors' expectations in relation to tax (UN PRI 2015; 2018; 2020). The UN PRI's guidance provides information on how investors can structure the engagement dialogue with companies in tax-related issues and provides sample questions on four broad themes: tax policy, tax governance, management of tax risk and tax reporting (see Table 5.3). Preparing or supporting resolutions covering responsible tax practices may be another typical instrument with which investors can actively exert influence over investee companies' tax behaviour. For instance, the Domini Social Investments and NEI Investments submitted a shareholder proposal to Google in 2014 to request the Board of Directors adopt a set of principles to address the impact of Google's tax strategies on society. In the same vein, in 2018, also Nike and Facebook were confronted with a shareholder resolution, asking them to endorse a set of responsible tax principles to guide their tax policy and to ensure that the impact of their tax strategies on local economies and public services are considered.

**Table 5.2** List of indicators for investors' screening of a company's tax profile

| | DJSI | MSCI ESG Ratings | FTSE Russell ESG Rating | Corporate Knights' Global 100 | Sustainalytics | REFINITIV ESG Score | VBDO | PRI | Vigeo/Eiris |
|---|---|---|---|---|---|---|---|---|---|
| *Positive Screening* | | | | | | | | | |
| Country-by-country reporting | X | X | X | | X | | | X | X |
| Governance and risk management | | | | | | | X | X | |
| Publication of a tax Strategy | X | | X | | X | | X | X | |
| ○ *Commitment to comply with the spirit of the law* | X | | | | | | X | | |
| ○ *Commitment not to use tax havens* | X | | | | | | | | |
| ○ *Commitment to refrain from tax avoidance* | X | | | | | | | | |
| ○ *Commitment to align taxation with value creation* | X | | X | | | | X | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ○ *Company's approach to transfer pricing* | X | | | | | | | | |
| ○ *Discussion of tax-risks* | | | | | X | | | | |
| ○ *Explanation of differences between effective tax rate and statutory tax rate* | | | | | | | | | X |
| Tax strategy oversight by board | | | X | | X | | | X | |
| Public statement on tax transparency by CEO/CFO | | | X | | | | | | |
| *Negative Screening* | | | | | | | | | |
| Lack of tax disclosure | X | X | | | X | | | X | X |
| Involvement in tax related controversies | | X | | | X | X | | | X |
| Media report on tax controversies | X | | | | | | | X | X |
| NGOs' report on tax controversies | X | | | | | | | | X |
| Large Tax Gap | X | X | | X | X | | | X | |

**Table 5.3** SRIs' engagement on tax-related issues

| Area | Questions that can be raised in engagement dialogue |
|---|---|
| Tax policy | ○ Key question: has the company considered publishing a tax policy?<br>○ Who has ultimate responsibility for setting your tax policy?<br>○ What is the organisational and board view on the approach to tax?<br>○ How is this approach linked to business and sustainability strategies? |
| Tax governance | ○ Key question: Is tax formally a part of the risk oversight mandate of the board?<br>○ How often and for what reason is risk discussed at the board or board committee level?<br>○ How do you manage tax planning policies, from board down to line-manager level?<br>○ What is the role of external audit firms in the tax planning strategy? How much have you spent on tax advice from external advisers in the past three years?<br>○ Is your executive team and line/divisional managers judged by financial performance before or after tax? [If yes] Have you considered whether this might have an impact on their approach to tax planning? |
| Tax risk management | ○ Key question: How do you define and manage tax-related risks? What are your top three tax-related risks?<br>○ How does your internal audit team monitor tax-related risks?<br>○ Has the board discussed the potential risk of tax strategies negatively impacting relations with key stakeholders, such as consumers, local or national governments?<br>○ Has your board discussed the possible ramification of your tax strategies for the firm's brand or reputation?<br>○ How would you characterise your relationship with the tax regulator in your home country?<br>○ To what extent does your profit after tax rely on your presence in tax havens or incentives and structures that enable very low taxation (e.g. <15%) of profits? |

| | |
|---|---|
| | o What is the internal ownership structure that governs your firm's intellectual property assets?<br>o Do you have subsidiaries in low tax jurisdictions that make intra-company loans?<br>o Could you provide an example of a transaction that was not in line with the board-agreed risk profile for the company and was thus rejected? |
| Tax reporting | o Key question: what drives the gap between your weighted average statutory rate and the ETR?<br>o How are you preparing for Country-by-Country Reporting (CbCR)? What effect do you think submission of CbCRs will have on your tax exposure in countries where you do business? Has your Board considered whether your CbCR should be publicly disclosed? Would you make your CbCR available to your investors? |

Source: UN PRI (2015) *Engagement Guidance on Corporate Tax Responsibility. Why and How to Engage with Your Investee Companies*. UN PRI (2018) *Evaluating and Engaging on Corporate Tax Transparency: an Investor Guide*.

### *5.2.4 The role of consultancy firms and business associations*

Finally, also major consultancy firms and business associations have developed principles, rules, and standards to achieve greater corporate tax responsibility.

A number of consultancy firms, such as Corporate Citizenship, Deloitte, EY, PWC, and SustainAbility, have developed guidance on specific areas of tax responsibility, such as tax reporting (EY 2013; Deloitte 2014; PWC 2019), tax strategy (Deloitte 2013), and tax governance (PWC 2020), and have offered broader principles for integrating CSR thinking and practices into a firm's approach to tax (SustainAbility 2006; Corporate Citizenship 2014). Additionally, consultancy firms seek to raise business awareness that framing corporate taxation as an issue of corporate responsibility is supported by "an increasingly compelling business case, from the wider perspective of the business community taken as a whole from the perspective of the company itself and, more specifically from company investors" (SustainAbility 2006, p. 16).

Furthermore, additional pressures on businesses for greater tax responsibility have been placed by some global business associations. For example, in 2013 the Business and

Industry Advisory Committee (BIAC) to the OECD, an important network of business organisations that is firmly embedded in the OECD tax policy work, issued two statements about general principles and best practices to "promote and affirm responsible business tax management by international business" (BIAC 2013a), covering key areas of tax responsibility, such as relationships with tax authorities, tax planning principles, and transparency and reporting principles (BIAC 2013a; 2013b). Some BIAC's member organisations have integrated these principles at national level (see, for instance, the statement of tax principles published in 2018 by the Confederation of British Industry (CBI) (CBI 2018). Another important step in responding to the increasing public demand for multinationals to disclose their tax policies has been made by the International Chamber of Commerce (ICC), the world business organisation, representing more than 45 million companies in over 100 countries. Acknowledging that an effective and successful tax system is a key component for the achievement of the 2030 Agenda for Sustainable Development and the 17 UN Sustainable Development Goals (SDGs) (ICC 2018), in 2017, the ICC released a set of guidelines "to promote the formulation of responsible tax principles by companies in order to enhance cooperation, trust and confidence between tax authorities, business taxpayers and the public concerning the operation of the global tax system" (ICC 2017, p. 1).

The most comprehensive business associations' project on responsible tax behaviour was launched by CSR Europe, which is the leading European Business Network for Corporate Sustainability and Responsibility established in Brussels in 1996. In 2016, CSR Europe, building upon its work and expertise on managing corporate transparency and governance, launched a project on '*Tax Transparency and Responsible Tax Behaviour*' in order to support companies in making responsible and transparent tax behaviour the new normal. The main achievement of the project is the development of a '*Self-Assessment Tool on tax transparency and responsibility*' allowing firms to self-assess their performance against a list of indicators that define and operationalise the concept of responsible tax behaviour (CSR Europe and PWC 2019).

## 5.3 Governmental initiatives on tax responsibility

Despite the importance of private regulation, also governments play a major role in promoting and influencing CSR adoption by firms (Steurer 2010; Gond et al. 2011; Vallentin and Murillo 2011).

Moon and Vogel (2008, p. 317) highlight that CSR “cannot be viewed in isolation from government”. Dentchev et al. (2015) also argue in favour of a contingency approach towards the principle of voluntarism which “implies situations with high levels and situations with low levels of governmental involvement in CSR” (Dentchev et al. (2015, p. 379). Both national governments and intergovernmental institutions (e.g., the European Union, the OECD, and the United Nations) have demonstrated a considerable interest in promoting and facilitating CSR among firms, driven by different interests and motivations, including: increasing the business environment’s competitiveness; promoting social cohesion between companies and society; fostering companies’ collective responsibility to contribute to a better society; gaining assistance with social problems, especially in developing countries (Moon 2002; Aguilera et al. 2007; Subramaniam et al. 2017).

The involvement of government in CSR can take various forms and be characterised by different policy instruments, such as (Moon and Vogel 2008; Steurer 2010; Gond et al. 2011; Knudsen et al. 2015):

- *CSR facilitation policies*, which seek to promote and encourage business involvement in CSR through economic incentives (e.g., subsidies or tax incentives) or informational initiatives, such as campaigns, websites or general recommendations and standards of business conduct.
- *CSR partnership policies*, which imply collaboration between governments and firms or business associations to jointly develop and disseminate guidelines, standards or codes of conduct that regulate business behaviour.
- *CSR mandate policies*, which introduce mandatory and legally binding CSR-related requirements for businesses[28]. Cominetti and Seele (2016) distinguish between *soft-hard law*, i.e., legal requirements characterised by a low level of

[28] For instance, mandatory CSR frameworks are adopted in Indonesia (Waagstein 2011) and India (Subramaniam et al. 2017; Gatti et al. 2019).

formalisation and weak sanctions, and *hard-hard law*, i.e., legal requirements with a high level of formalisation and strong sanctions for non-compliance.

Governments and intergovernmental institutions have been addressing corporate-tax related issues, such as tax avoidance and tax evasion, for decades. Although most regulatory efforts fall outside the scope of CSR – since they consist in new legislations to close the loopholes in the international tax framework and/or introduce more efficient mechanisms for sanctioning non-compliance – in recent years governments have increasingly addressed tax-related issues through the lens of CSR.

The OECD Guidelines for Multinational Enterprises (OECD 2011) represent the first international corporate responsibility instrument to cover taxation and consist of an international set of government-backed recommendations that provide MNEs with non-binding principles and standards for responsible business conduct on all major areas of business ethics, including corporate taxation. Chapter XI states that corporate citizenship in the area of taxation implies that enterprises should: a) comply with both the letter and the spirit of the tax laws and regulations in all countries in which they operate; b) co-operate with tax authorities; and c) treat tax governance and tax compliance as important elements of their oversight and broader risk management systems, structures and policies (OECD 2011, p. 60). In further reports, the OECD has developed and recommended more detailed principles and good practices to establish trustful, cooperative and transparent relationships with tax authorities (i.e., the 'Co-operative Compliance Framework', see OECD 2008; 2013b) and to develop tax risk management strategies that allow the enterprise to not only act as a good corporate citizen, but also to effectively manage and avoid major financial, regulatory and reputational tax-related risks (i.e., the 'Tax Control Framework', see OECD 2016).

The relevance of business tax policies in the CSR agenda has also been marked by the European Union's institutions. In 2011, in its '*Renewed EU Strategy for Corporate Social Responsibility*', the European Commission explicitly set out that corporate taxation should be part of the CSR agenda and encouraged governments to work towards the implementation of the three principles of good tax governance, namely "transparency, exchange of information and fair tax competition" (European Commission 2011, p. 7). Furthermore, the European Parliament noted that a business's tax policy "should be considered part and parcel of a modern understanding of CSR" (European Parliament

2016, p. 2) and called on the Member States to develop binding measures to "promote good governance notably in tax matters and effective tax collection […] and to support the role of civil society in ensuring public scrutiny of tax governance" (European Parliament 2018b, p. 5).

Governments have also introduced mandatory mechanisms to persuade businesses to approach taxation in a more socially responsible way. As mandatory non-financial disclosure regulation is the central governmental policy instrument to enable CSR (Bebbington et al. 2012; Chelli et al. 2016)[29], improving tax transparency is at the heart of regulatory efforts to encourage businesses to think about tax as a CSR issue (Alexander 2013; Oats and Tuck 2019). Indeed, mandating companies to publicly disclose tax-related information is supposed to function as an accountability mechanism, which induces public pressure and imposes reputational damage on firms, leading them to approach their tax planning more responsibly. Indeed, scholars promoting public tax disclosure note that "the mere availability of public information and possible public opprobrium might dissuade some companies and their directors from indulging in aggressive tax avoidance practices" (Sikka 2018, p 12).

The most discussed form of tax disclosure is the 'Country-by-Country reporting' (CbCR) (Murhpy 2003; 2016), which requires corporations to publish the amount of tax paid, as well as other financial and economic indicators, for each jurisdiction in which they operate. CbCR is designed to provide governments and other interested parties with the appropriate information to assess a multinational corporation with regard to "its corporate social responsibility, investment risk, its tax risk, its contribution by way of value added to the societies in which it operates, and its contribution to national well-being by way of tax payments within those locations" (Murphy 2003, p. 2). The implementation of mandatory CbCR has occurred through different initiatives that can be classified into two types: public CbCR (i.e., CbCR available to the public) and private CbCR (i.e., CbCR available only to tax authorities).

Public CbCR is under intense debate at EU level. Since 2013, mandatory CbCR have been introduced for European companies operating in certain industries: the EU Capital Requirements Directive IV (abbr. CRD IV) mandates CbCR for European credit

[29] For instance, the EU Directive 2014/95/EU makes non-financial disclosure mandatory for large European firms.

institutions and investment firms, while the EU Accounting and Transparency Directive mandates CbCR for large companies active in the extractive industries and the logging of primary forests. This latter mandatory disclosure requirements aims to strengthen the Extractive Industries Transparency Initiative (EITI), which is a voluntary initiative with the objective of improving transparency and accountability in countries rich in oil, gas, and mineral resources. Once a host country endorses the initiative, the EITI process is mandatory for all extractive industry operators operating within that country. The EITI standard requires also the comprehensive disclosure of company payments and government revenues.

However, the European Commission is working to extend mandatory public CbCR to all companies in order to place them "under closer public scrutiny and create more awareness of their tax practices" (European Commission 2015, p. 5). To this end, in 2016 the European Commission proposed a directive that requires large multinational companies to publish key information on where they make their profits and where they pay their tax on a per country basis (European Commission 2016b). The European Commission explicitly recognized that its proposal contributed to the EU's polices on CSR, since public scrutiny on companies' tax policies is expected to "reinforce public trust and strengthen companies' corporate social responsibility by contributing to the welfare through paying taxes in the country where they are active" (European Commission 2016b, p. 2). Although the proposal was adopted by the European Parliament (European Parliament 2017; 2019a) and in October 2019 members of the European Parliament passed a resolution urging Member States to agree on a position allowing talks to begin (European Parliament 2019b), the proposal is still being discussed in Council by the 28 EU Member States at the moment of writing (November 2020). This can be partly explained by the fact that the proposal was well received among several stakeholders, but met heavy resistance from others. From the report on the consultation activities undertaken by the European Commission (European Commission 2016c), it seems that NGOs and trade unions see largely only benefits to having public tax transparency on the grounds that it may enable stakeholders and the general public to gain a better understanding of a company's contribution to society, whereas the business community (firms and industry associations) are generally less keen on public disclosure, concerned that it would place European companies at a competitive disadvantage compared with their non-EU counterparts and that it might lead to a misinterpretation of the information disclosed, due to the public's limited understanding of tax-related technicalities.

On the other hand, private CbCR is an essential component of a cooperative relationship between businesses and tax authorities, since it provides tax administrations with the information required to ensure an effective and equitable application of the tax laws. Private CbCR was discussed within the Action 13 of the OECD/G20's Base Erosion and Profit Shifting (BEPS) project, which aims to offer recommendations to review the international tax framework in order to tackle corporate tax avoidance strategies that exploit gaps and mismatches in tax rules (OECD 2013a). BEPS Action 13 recommends all MNEs with annual consolidated group revenue equal to or exceeding €750 million to

> "provide annually and for each tax jurisdiction in which they do business the amount of revenue, profit before income tax and income tax paid and accrued. It also requires MNEs to report their number of employees, stated capital, retained earnings and tangible assets in each tax jurisdiction. Finally, it requires MNEs to identify each entity within the group doing business in a particular tax jurisdiction and to provide an indication of the business activities each entity engages in" (OECD 2015, p. 9).

As of November 2020, more than 90 countries had implemented legislation to mandate BEPS's private CbCR (OECD 2020b). For instance, it was transposed into EU Law with the Directive 2016/881/EU.

Finally, mandatory requirements for tax transparency have been introduced by some national governments, such as the United Kingdom and Australia. In 2016, the United Kingdom passed legislation as part of the Finance Act 2016 that requires large firms operating in the UK to disclose their tax strategies on their websites (Freedman and Vella 2016). A tax strategy, which should be approved by the Board of Directors, must include information about: approach to risk management and governance; attitude to tax planning; level of acceptable tax risk; approach towards tax authorities; any other relevant information relating to taxation[30]. On the other hand, the Australian government has launched two major initiatives to improve tax transparency. Since 2015, the Australian Tax Authority publicly discloses certain items from corporate tax returns of large private and public companies, while in 2016 the Australian Board of Taxation introduced the Voluntary Tax Transparency Code (TTC). The TTC is a set of principles and 'minimum standards' to guide medium and large businesses towards voluntary public disclosure of

[30] See https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy#how-your-business-manages-uk-tax-risks.

tax-related information. Indeed, the Australian government wanted "more large businesses to publicly disclose their tax affairs to highlight those that are paying their fair share and to encourage all businesses not to engage in aggressive tax avoidance"[31]. As of November 2020, 180 Australian companies have voluntarily signed the TTC and published a transparency report[32].

Although tax transparency has gained increasing relevance, empirical evidence on its actual effectiveness to tackle tax avoidance is still scarce and inconclusive. For instance, Overesch and Wolff (2019) and Joshi et al. (2020) provide contradictory findings on the tax avoidance behaviour of European financial institutions affected by the CRD IV's CbCR requirements. While Overesch and Wolff (2019) find that European banks reduced their tax avoidance strategies after the introduction of the CbCR obligation, Joshi et al. (2020) document a substitution of profit shifting activities between subsidiaries subject to different degrees of transparency, but no significant change in the overall level of tax avoidance.

Early empirical evidence also documents that companies are responding to UK legislation mandating tax strategy more with a 'tick the box' approach, rather than with a proactive mentality. Belnap (2019) analyses the content of more than 600 US MNEs' UK tax strategies, finding that a large proportion of the documents are very similar to each other and that most tax strategies are quite brief. Similarly, a study by PWC (2019) documents that in the UK FTSE100 the average tax strategy was only 600 words long. Finally. Hoopes et al. (2018) have documented that the introduction of mandatory tax disclosure in Australia appears to have raised the tax payments of private companies but lowered the tax payments of public companies, consistently with the differences in disclosure costs. Scholars have also provided contrasting findings on the efficacy of private tax disclosures in deterring tax avoidance. While Joshi (2020) found that it can lead to a significant decline in corporate tax avoidance, Hugger (2019) provides limited support for the effectiveness of non-public CbCR against profit shifting.

The impact of mandatory tax disclosure on corporate behaviour depends too on the investors' reactions to the introduction of new requirements. While some studies have found that new public tax disclosure rules are associated with negative stock price

[31] See http://taxboard.gov.au/files/2016/05/BoT_TransparencyCode_Final-report.pdf.
[32] See https://data.gov.au/dataset/ds-dga-f71709a8-2eeb-4592-ad1f-443f7f520186/details.

reactions (Johannesen and Larsen 2016; Hoopes et al. 2018), Dutt et al. (2019) have observed both negative and market reactions to the introduction of CbCR obligation for EU financial institutions. The authors suggest that there are several channels that could drive investors' reactions to new disclosure obligations for companies: "investors might appreciate the upcoming enhancement in tax transparency, providing them with incremental information about the firms and reducing information asymmetries between shareholders and managers. On the other hand, investors could expect that the affected companies will subsequently reduce the extent of their tax avoidance activities (as intended by the legislator) and/or will face substantial reputational costs" (Dutt et al. 2019, p. 1286).

## 5.4 A roadmap for responsible tax behaviour

So far in this chapter we have seen that various rules, standards and guidelines, whether mandatory or voluntary, public or private, have been developed to guide companies to manage their tax affairs more responsibly. This last section aims to discuss more in detail the most substantive elements of these tax responsible programmes in order to advance the debate about 'what good looks like' when it comes to taxation. First, it is important to note that greater tax responsibility does not involve the voluntary payment of tax or artificial behaviour to increase tax burden, but rather in responsible practices and decisions about tax-related issues within the range of available options.

Reviewing the content of the main tax responsibility initiatives, listed in Table 5.4, it emerges that a responsible approach to tax covers at least three main areas: 1) tax management and tax governance; 2) engagement with stakeholders; and 3) tax reporting.

### *5.4.1 Tax management and tax governance*

First, responsible tax behaviour requires a shift in the functions, objectives, policies and working practices of a company's tax governance that should become a mechanism "not simply for reducing tax liabilities while managing tax risk, but also for implementing responsible tax behaviours" (ActionAid, Oxfam, and Christian Aid 2015, p. 26).

**Table 5.4** Selected list of rules, guidelines and standards for responsible taxation

| **Organisation** | **Source** |
|---|---|
| Private initiatives | |
| ActionAid | Responsible Tax Practice by Companies (2015) |
| ActionAid | Tax Responsibility. An Investor Guide (2013) |
| ActionAid, Fairfood and FairPensions | Tax responsibility. The business case for making tax a corporate responsibility issue (2011) |
| ActionAid, Christian Aid, and Oxfam | Getting to Good – Towards Responsible Corporate Tax Behaviour (2015) |
| Business and Industry Committee (BIAC) to the OECD | o Statement of Tax Principles for International Business (2013)<br>o Statement of Tax Best Practices for Engaging with Tax Authorities in Developing Countries (2013) |
| ChristianAid | Tax and Sustainability (2011) |
| Confederation of British Industry (CBI) | Statement of tax principles (2018) |
| Corporate Citizenship | Tax: Time for action. A guide for companies on responding to the tax debate (2014) |
| CSR Europe | A Blueprint for Responsible and Transparent Tax Behaviour (2019) |
| Deloitte LLP | Responsible Tax Series (2013-2019) |
| EY | Tax Transparency. Seizing the Initiative (2013) |
| Fair Tax Mark | Fair Tax Mark Criteria Notes (2019 update) |
| GRI | GRI 207: Tax (2019) |
| International Chamber of Commerce (ICC) | ICC Guidelines on Tax Principles for Multinational Businesses (2018) |
| PWC | Tax Transparency Framework (2019) |
| Principle for Responsible Investment (PRI) | o Engagement Guidance on Corporate Tax Responsibility (2015)<br>o Investors’ Recommendations on Corporate Income Tax Disclosure (2017)<br>o Evaluating and Engaging on Corporate Tax Transparency: an Investor Guide (2018)<br>o Advancing Tax Transparency: Outcomes from the PRI Collaborative Engagement 2017-2019 (2020) |

| | |
|---|---|
| SustainAbility | Taxing Issues: Responsible Business and Tax (2006) |
| The B Team | The B Team Responsible Tax Principles – A New Bar for Responsible Tax (2018) |
| Public initiative | |
| Australian Government | Voluntary Tax Transparency Code (2016) |
| European Union | o Capital Requirements Directive IV (2013/36/EU)<br>o Accounting and Transparency Directives (2013/34/EU)<br>o Proposal of public country-by-country reporting (2016) |
| OECD | o OECD Guidelines for Multinational Enterprises – Taxation (2011)<br>o OECD BEPS Project. Action 13 (2015)<br>o Co-operative Tax Compliance. Building Better Tax Control Frameworks (2016)<br>o Co-operative Compliance: A Framework. From Enhanced Relationship to Co-operative Compliance (2013) |
| UK Government | Large Business Tax Strategy (2016) |

Tax governance should help to "efficiently and responsibly address the fundamental change in the outside world and shows accountability on its tax approach to its stakeholders" (PWC 2019, p. 4). Although "there is no one-size fits-all tax governance model" (CSR Europe and PWC 2019, p. 13), since every company is different in terms of resources, structure, governance model, business processes, etc., a number of essential organisational elements can be identified:

- *Tax strategy/policy*. Responsible businesses are expected to develop and publish a tax strategy/policy where the Board of Directors defines "how the organisation balances tax compliance with business activities and ethical, societal and sustainable development-related expectations" (GRI 2019, p. 6). More in particular, a tax strategy should include a company's general attitude towards tax planning, the broad tax principles and its appetite for tax risk.
- *Tax consistency*. A responsible approach to tax requires integrating corporate tax in the strategic context of the broader organisation and society and, then, aligning corporate tax strategies with the business strategy and commitments to ethical conduct, sustainability and SDGs.

- *Tax management*. Responsibly managing a tax policy across a multinational company requires "procedures that regulate the tax function across the whole corporate group in accordance with the policy; that promote and incentivise compliance with the policy; and that monitor such compliance" (ActionAid 2013, p. 18). Most cited examples of good processes and policies for responsible tax management include: training relevant staff; communicating tax policy to employees; creating succession-planning for positions that are responsible for tax; employing qualified and trained tax professionals.
- *Tax risk*. Responsible businesses are advised to implement appropriate internal control frameworks or risk management systems with respect to tax, in order to identify, manage and monitor risks associated with the organisation's tax practices, including compliance risks and reputational risks. The OECD suggests the implementation of the 'Tax Control Framework' (TCF), namely "the part of the system of internal controls that assures the accuracy and completeness of the tax returns and disclosures made by an enterprise" (OECD 2016, p. 7).
- *Whistle-blowing channels*. Responsible companies should implement appropriate mechanisms for stakeholders to report unethical or illegal behaviour in relation to tax with the guarantee of identity protection and confidentiality.

### *5.4.2 Engagement with stakeholders*

A second important area of tax responsibility refers to a firm's engagement with its stakeholders. Indeed, responsible companies are expected to approach their tax policies from a multi-stakeholder perspective, then engaging in active and fluent dialogue with internal and external stakeholders, to collect (and take into account) their points of views, concerns and expectations in relation to tax (Deloitte 2013). An organisation's tax behaviour is of interest to various stakeholders, but most tax responsibility programmes focus on the relationships with tax authorities and governmental institutions.

First, many standards for responsible taxation recommend businesses establish cooperative relationships with tax authorities (BIAC 2013a; CBI 2018; ActionAid, Christian Aid, and Oxfam 2015; CSR Europe and PWC 2019). This recommendation stems from the fact that large companies often enjoy advantages of both power and capacity over tax administrations, particularly in developing countries. In order to establish a cooperative relationship with tax authorities, companies are expected to: provide relevant information and communicate properly with revenue officials in every jurisdiction where companies operate; seek to be treated as a taxpayer like any other, putting in place clear boundaries in any tax negotiation or dispute resolution to ensure that it does not use its economic or political power to obtain preferential or extra-statutory treatment in tax rulings or settlements; boost the capacity of revenue authorities in poorer countries through positive and proactive disclosure and cooperative working practices.

On the other hand, responsible engagement with tax policymakers involves "pursuing a tax-level playing field with other taxpayers, regardless of position and power" (ActionAid, Christian Aid, and Oxfam 2015, p. 30). This basic principle should be applied across different areas that characterise a business-government relationship and, for instance, requires that companies: do not seek access to special tax incentives that provide an unfair competitive advantage over other taxpayers; do not lobby governments to conclude special tax treaties or skew international tax laws for their own benefit; work collaboratively and honestly with governmental and intergovernmental institutions for the development of future tax legislation for the purpose of achieving a fairer and more efficient regulatory tax environment.

### *5.4.3 Tax transparency and reporting*

The majority of tax responsible initiatives converge on tax transparency as an essential part of responsible tax behaviour. Indeed, tax transparency is viewed as an essential instrument to appraise an organisation with regard to its contribution to national well-being and, then, to its corporate social responsibility (Murphy 2003). Supporters of tax transparency highlight that it "promotes trust and credibility in the tax practices of organisations and in the tax systems. It enables stakeholders to make informed judgments about an organisation's tax positions. Tax transparency also informs public debate and supports the development of socially desirable tax policy" (GRI 2019, p. 4). Additionally, public tax disclosure "better equips citizens of developing countries to hold their governments to account for the money they collect from companies and how they spend it" (ActionAid, Christian Aid, and Oxfam 2015, p. 9).

Tax campaigners and tax activists have also positioned tax transparency as a key issue in the fight for tax justice (Christians 2012). Stakeholders' growing interest in tax transparency has led to a surge in new, either mandatory or voluntary, tax disclosure requirements and initiatives related to tax, both within the public and the private domain (Table 5.5), which aim at "communicating whether a taxpayer has made responsible choices" (Hilling and Sorrentino 2019, p. 67).

On the one hand, mandatory tax transparency frameworks (i.e., the EU CRD IV Directive for European financial institutions, the EU Accounting Directive for mining and forestry companies and the proposed EU Directive for large multinational companies) require businesses to publicly disclose a CbCR, with a set of financial, economic, and tax-related information for each jurisdiction in which the organisation operates (Table 5.6).

On the other hand, an increase in voluntary standards for companies on tax reporting has been seen over recent years. The most important frameworks are the new GRI Standard '*GRI 207: TAX*', the B Team's Responsible Tax Principles, the Fair Tax Mark and the Australian Voluntary Tax Code (PWC 2019). As summarized in Table 5.7, these frameworks converge on a set of main elements that should be reported: 1) a company's broad approach to tax (e.g., its tax principles, its attitude to tax planning; the degree of acceptable tax risk); 2) tax governance and risk management framework over tax, to provide comfort that the approach to tax is followed and monitored in practice; 3) engagement with stakeholders on tax-related issues, including governments, tax authorities, and NGOs; 4) specific tax-related information, such as the effective tax rate and the CbCR.

However, the precise data and information that a company is expected to publish vary according to the needs of different stakeholders. Hence, a tax responsible company is expected to "work with those stakeholders to progressively improve its disclosures" (ChristianAid, Oxfam, and Action Aid 2015, p. 19). In practice, companies voluntarily disclose tax information in dedicated sections of their annual reports or sustainability and CSR reports, as well as in separate, stand-alone tax transparency or total tax contribution reports (Deloitte 2017; PWC 2020).

**Table 5.5** List of main tax transparency frameworks

| Tax Transparency Framework | Nature | Geographical area |
|---|---|---|
| The Fair Tax Mark | Voluntary | UK |
| Voluntary Tax Transparency Code | Voluntary | Australia |
| GRI 207: Tax | Voluntary | Global |
| The B Team | Voluntary | Global |
| Publish Your Large Business Tax Strategy | Mandatory | UK |
| EU CRD IV Directive | Mandatory | European Union |
| EU Accounting Directive | Mandatory | European Union |
| EU Proposal of Public CbCR | Mandatory | European Union |

**Table 5.6** Mandatory public CbCR

| | EU CRD IV Directive | EU Accounting Directive | EU Proposal |
|---|---|---|---|
| Name | X | X | X |
| Nature of business activities | X | | X |
| Tax jurisdiction | X | | |
| Revenues | X | | X |
| Number of employees | X | | X |
| Profit or loss before income tax | X | | X |
| Income tax paid | | X | X |
| Income tax accrued | X | | X |
| Public subsidies received | X | | |
| Stated capital | | | |
| Accumulated earnings | | | X |

**Table 5.7** Voluntary tax transparency frameworks

| | **GRI 207: Tax** | **The B Team Responsible Tax Principles** | **Fair Tax Mark** | **Australian Voluntary Tax Transparency Code** |
|---|---|---|---|---|
| Approach to tax | | | | |
| Existence of a tax strategy/policy | X | | X | X |
| Approach to regulatory compliance | X | | | |
| Link between tax strategies and commercial activities | X | | X | |
| Link between tax strategies and sustainable development strategies | X | | | |
| Governance body that reviews and approves the tax strategy | X | | X | |
| Use of tax havens | X | | X | |
| Transfer pricing policies | X | | | |
| Accepted level of risk in relation to tax | | | | X |
| Attitude towards tax planning | | | | X |
| Tax governance, control and risk management | | | | |
| Governance body accountable for compliance with the tax strategy | X | X | | |
| Policies and programmes to support adherence to the tax strategy within the organisation | X | X | | |
| Internal control framework to identify, manage and monitor tax risks | X | X | | X |

| | | | | |
|---|---|---|---|---|
| Processes to monitor, test and maintain the tax governance and control framework | X | X | X | |
| Mechanisms for reporting concerns about unethical or unlawful behaviour in relation to tax | X | | | |
| Assurance process for tax disclosure | X | | | |
| <u>Stakeholder engagement</u> | | | | |
| Processes for collecting and considering the views and concerns of stakeholders | | | | |
| Approach to engagement with tax authorities | X | X | | X |
| Approach to public policy advocacy on tax | X | X | | |
| <u>Specific disclosure</u> | | | | |
| Explanation of subsidiaries, branches and joint ventures operating in low tax jurisdictions | | X | | |
| Overall effective tax rate | | X | X | X |
| Numerical and narrative reconciliation of differences between effective tax rate and statutory tax rate | | | X | |
| Country-by-country reporting | X | X | X | |
| Financially-material tax incentives | X | X | | |
| Reconciliation of accounting profit to income tax paid | | | | X |
| International related party dealings | | | | X |

## 5.5 Concluding remarks

This relatively descriptive chapter has discussed the growing number of initiatives and programmes that provide guidance on how to approach corporate taxation as an issue of CSR. The discussion highlights how the global governance of corporate taxation has changed radically in recent years. Indeed, the area of corporate taxation had been dominated for decades by a "traditional" command-and-control style of regulation, where governments command companies to meet specific requirements and control their behaviour by threatening sanctions. The principal rationale underlying this approach was "the theory of deterrence, under which compliance is treated as a function of the probability of an offender being punished and the severity of the penalty" (Sinclair 1997, p. 534). However, in the last decades, the command-and-control approach has been increasingly perceived as insufficient to ensure an appropriate business behaviour in taxation, mainly because of the intense tax competition among countries and the lack of a global tax framework (Gribnau 2015; Hilling and Sorrentino 2019).

To compensate these governance voids, an increasing number of non-state actors have entered the tax arena to provide (soft law) regulation, in the form of recommendations, principles, standards and guidelines, in those areas where the legislation is imperfect, open to different interpretation or lagging behind society's evolving demands and expectations. Moreover, governmental and intergovernmental institutions have also started to demand companies take a more active, collaborative and transparent approach to taxation which goes above and beyond the mere filing of a tax return to avoid sanctions. This new regulatory framework on corporate taxation is not only based on a command-and-control approach, but also on self-regulatory initiatives, which rely on the goodwill, moral commitment and cooperation of individual corporations, as well as on pressure from peers and the general public, as means to achieve a fairer and more efficient tax system, where all taxpayers pay their fair share of taxes.

Tax transparency is by far the most widely discussed self responsibility-based measure to tackle tax avoidance and achieve more responsible tax practices. This mechanism relies substantially on companies' commitment to provide a comprehensive and understandable picture of their tax affairs, without manipulating or hiding relevant data and information. Moreover, this mechanism assigns a decisive role to organisation stakeholders to give companies economic incentives and moral pressures to manage their tax affairs in a desirable and responsible way. Therefore, stakeholders are expected to show greater concern about a firm's tax affairs, to develop the knowledge required to understand corporate tax disclosure, and to use their power to react against cases of corporate tax irresponsibility. The role of stakeholders in influencing corporate tax policies and tackling corporate tax avoidance is discussed in the following chapter.

# PILLAR III.

# CORPORATE TAXATION AND STAKEHOLDER THEORY

The third part of this research deals with the mechanisms through which ethical and responsible tax practices may became an institutionalised corporate behaviour. In particular, the sixth chapter of this thesis draws on stakeholder theory to explain the role of organisational stakeholders in influencing how firms approach their tax affairs.

Stakeholder theory is usually traced back to the seminal work of Freeman (1984) *Strategic Management: A Stakeholder approach*, even if the same author concedes that the stakeholder concept had previously appeared in the management literature (Freeman et al. 2010, p. 30).

Proponents of stakeholder theory conceive it as a *strategic management* theory (Freeman et al. 2020) which addresses the problem of value creation and trade in business (Freeman et al. 2010, p. 29). In other words, stakeholder theory is an "area of study about how to run an efficient and effective competitive organization" (Lange and Bundy 2018, p. 383). As presented by its founders, stakeholder theory is best understood pragmatically: it is about "knowing how to engage stakeholders and create value for them" (Freeman et al. 2020, p. 5), or, put another way, "tools that managers can use to better create value for the range of their constituents, tools that constituencies can use to improve their dealings with managers, and tools that theorists can use to better understand how value creation and trade take place" (Freeman et al. 2012, p. 1).

Moreover, stakeholder theory is conceived not just as a single theory, but rather as a "framework, a set of ideas from which a number of theories can be derived" (Freeman et al. 2010, p. 63). Freeman (1994) makes it clear that all stakeholder theories explicitly address the following questions: i) what is the purpose of the corporation? and ii) to whom does the corporation have responsibilities?

The basic idea that ties together stakeholder thinking conveys a particular vision of the firm (Phillips et al. 2019; Freeman 2010; Freeman et al. 2010):

> "Business can be understood as a set of relationships among groups which have a stake in the activities that make up the business. Business is about how customers, suppliers, employees, financiers (stockholders, bondholders, banks, etc.), communities and managers interact and create value. To understand a business is to know how these relationships work. And, the

> executive's or entrepreneur's job is to manage and shape these relationships, hence the title, "managing for stakeholders" (Freeman 2010, p. 7).

As this idea clearly highlights, stakeholder theory suggests adopting the relationship between a business and its stakeholders as a unit of analysis, to address the problem of value creation and trade in business. From this perspective, the primary responsibility of managers is to create as much value as possible for stakeholders. Moreover, the 'stakeholder model' proposes extending the focus of managers beyond the traditional interest group of shareholders in order to understand the needs, expectations, and values of groups previously perceived to be external to the company. Stakeholders have been defined in a number of ways (Kaler 2002; Griffin 2017). Freeman's (1984) original book defines stakeholder as any group or individual that can affect or be affected by the realization of an organisation's purpose. A widely accepted distinction is between *primary* stakeholders, defined as those without whose continuing participation the corporation cannot survive as a going concern (i.e., shareholders and investors, employees, customers, suppliers, and communities) and *secondary* stakeholders, defined as those who influence or affect, or are influenced or affected by, the corporation, but are not engaged in transactions with the corporation and are not essential for its survival (e.g. media, NGOs, and special interest groups) (Clarkson 1995). However, the identification of stakeholders remains a central topic in stakeholder theory (e.g., Mitchell et al. 1997; Mitchell et al. 2018).

Although originally conceived as a theory for strategic management, stakeholder theory has such a central place in business ethics that it is thought by some to be one "of the leading normative theories of business ethics" (Hasnas 1998, p. 25). Indeed, the stakeholder theory's view of the firm "as a vehicle for coordinating stakeholder interests" (Evan and Freeman 1993, p. 102) is "necessarily and unavoidably associated with moral reasoning" (Lange and Bundy 2018, p. 366). How human beings are treated in the process of a firm's business dealings, and what outcomes they are owed by virtue of how they affect or are affected by the business, are central concerns associated with stakeholder theory. Indeed, the distinctive elements of stakeholder theory include "human actors and their interactions in the process of (particularly, but not limited to, economic) value creation and trade in a turbulent world including the alignment of values, norms, and ethics as mechanisms for efficient and effective flourishing within and among organizations" (Freeman et al. 2020, p. 7).

Furthermore, the role of values and ethics has been fundamental in stakeholder thinking. Accordingly, stakeholder theory has been described as having a strong moral foundation (Jones and Wicks, 1999). Donaldson and Preston (1995, p. 87) argue that "the ultimate justification for the stakeholder theory is to be found in its normative base". Using the words of Phillips et al. (2003, p. 14) "Stakeholder theory is a theory of organizational management *and ethics*" (emphasis added). What makes stakeholder theory distinct from other managerial theories is that morals and values are addressed "explicitly as a central feature of managing organizations" (Phillips et al. 2003, p. 481). As such, stakeholder theory has been justified repeatedly not just on its merits as a theory of competitive effectiveness (as would be the case with any theory of strategic management), but also in terms of its deeper moral foundations and principles.

The normative core of stakeholder theory is manifest in the stream of literature which provides moral justifications for stakeholder theory on the basis of various philosophical theories, such as Kantianism (Evan and Freeman 1993), Feminist theory (Wicks et al. 1994), Rawls' theory of fairness (Phillips 1997; 2003), the notion of common good (Argandoña 1998) and the doctrine of fair contracts (Freeman 1994). It is important to point out that a normative core of stakeholder theory is thought "to help managers create value for stakeholders" (Freeman et al. 2010, p. 213). Simply put, such normative cores are "always dependent on the instrumentality built into the idea of stakeholder management" (Freeman 1999, p. 234). As mentioned above, stakeholder theory can be unpacked into a number of different theories, each of which has "a normative core, inextricably linked to the way that corporations should be governed and the way that managers should act" (Freeman 1994, p. 413).

Many scholars have focused on understanding the mechanisms by which managing for stakeholders can lead to sustained competitive advantage (Jones 1995; Harrison et al. 2010; Jones et al. 2018). More specifically, the so-called 'instrumental stakeholder theory' suggests that "firms that treat their stakeholders ethically will enjoy higher profit performance (and presumably higher returns for shareholders) than firms that do not" (Jones and Harrison 2019, p. 77), as demonstrated by a large body of empirical evidence (e.g., Berman et al. 1999; Choi and Wang 2009; Henisz et al. 2014).

Stakeholder theory is one of most widely applied theoretical frameworks in CSR studies (Garriga and Melè 2004; Brown and Forster 2013; Frynas and Yamahaki 2016). A stakeholder approach to CSR can serve as a useful guide for managers to better understand to whom their firm is, or should be, accountable (Jamail 2008). Studies from the stakeholder perspective have provided rich empirical evidence for the influence of stakeholders on CSR implementation (Yang and Rivers 2009; Lee 2011; Brower and Mahajan 2013; Helmig et al. 2016; Graham 2020), as well as on the transparency of sustainability reports (Fernandez-Feijoo et al. 2014; Chiu and Wang 2015) and on the relationship between corporate social performance and corporate financial performance (Barnett 2007; Barnett and Salomon 2012; Thijssens et al. 2015; Barnett 2019). Nevertheless, reflecting on the connections between CSR and stakeholder theory, Freeman and colleagues suggest replacing the term CSR with the idea of 'company stakeholder responsibility' (Freeman and Velamuri 2006) to emphasise that "the goal of CSR is to create value for key stakeholders and fulfil our responsibilities to them" (Freeman et al. 2010, p. 264).

As has emerged from this brief review, much of stakeholder theory literature has focused mainly on the perspective of companies, speaking of what managers ought to do and for whom they ought to manage the business. However, stakeholder thinking also includes a stream of research which investigates more deeply the stakeholder-side of the relationship. Initially, scholars studied the beginning stages of stakeholder mobilisation against firms, such as when stakeholder groups act (Rowley and Moldoveanu 2003) and what tactics they choose (e.g., Frooman 1999; Henriques and Sharma 2005; Frooman and Murrell 2005; Hendry 2005).

Research on the stakeholder side was significantly extended by Goodstein and Wicks (2007), who recognized the importance of "the role of stakeholders … in fostering ethical business practices and business excellence" (p. 375). Goodstein and Wicks (2007) contend that firms and stakeholders conduct business within a regime of '*shared responsibility*', where "networks of individuals work together (both within and across organizations) to get things done and avoid ethical breakdowns" (Goodstein and Wicks 2007, p. 380). The construct of *stakeholders' shared responsibility* recognizes the reciprocal nature of responsibility: as firms have moral obligations to stakeholders, stakeholders should acknowledge and accept that they have reciprocal duties and responsibilities to the firm and to other stakeholders (Fassin 2012; Rusconi 2018). In other words, "if there is a moral relationship between the corporation and its stakeholders, then this relationship surely generates moral duties and responsibilities for the stakeholders, not simply moral claims and prerogatives" (Sandbu 2012, p. 98).

This approach to stakeholder theory is the one used in chapter 6 of this thesis ("*The role of stakeholders in corporate tax decision-making*"), which elucidates the role of stakeholders in driving the transition towards more ethical and responsible tax behaviour. In particular, the chapter develops a model describing the process by which corporate decision-making around tax can be influenced by organisational stakeholders. This model depicts the tax preferences of stakeholders, drawing on the distinction between self- and other-regarding stakeholders, and describes the mechanisms with which the latter can drive companies towards more responsible tax practices.

# 6.

# THE ROLE OF STAKEHOLDERS IN CORPORATE TAX DECISION-MAKING

## 6.1 Introduction

Although the payment of corporate tax cannot be considered voluntary, international tax rules are so incomplete and open to different interpretations (Gribnau 2015; Ostas 2020), that multinationals have considerable discretion as to how to arrange their tax affairs and, then, how much tax they pay (Muller and Kolk 2015, p. 440).

In this thesis we have already seen that a firm's approach to tax compliance may lie on a continuum between two extremes that can be labelled as the '*tax-as-cost*' and the '*tax-as-contribution*' approach (Anesa et al. 2019). Under the *tax-as-cost* approach, corporate tax payment is merely perceived as an operational cost to be minimized in the pursuit of profits. Consequently, companies engage in tax avoidance to reduce their tax burden as much as possible within the legal framework. On the other hand, the *tax-as-contribution* approach conceives the payment of corporate tax as a fundamental contribution to support the development of fair and just societies. Framing tax as a contribution rather than as a cost to be minimized, companies assume ethical and social responsibilities related to corporate tax payments, above and beyond that which is required by tax laws. The tax-as-contribution approach has already been discussed in this thesis, stressing the ethical responsibilities associated with the payment of corporate tax (chapter 2), the arguments for including corporate taxation in the CSR agenda (chapter 3), and what an ethical and socially responsible approach to taxation is like (chapters 4 and 5). In a nutshell, we have seen that companies which view the payment of tax as a social contribution rather than as a cost to be minimized, commit themselves to pay a fair share of tax in all countries in which they operate, to comply with both the letter and the spirit of tax laws, to be fully transparent about their tax affairs, to refrain from tax avoidance, and to manage their tax activities from a multi-stakeholder perspective.

Engaging in tax avoidance to minimize corporate tax burden is still by far the dominant approach among companies. The Institute of Taxation and Economic Policy (ITEP) has recently revealed that 91 profitable corporations out of the Fortune 500 companies did not pay federal income taxes on their 2018 US income, while 56 companies paid effective tax rates between 0% and 5% in 2018 (ITEP 2019).

This chapter focuses on the mechanisms for facilitating the transitions from the *tax-as-cost* to the *tax-as-contribution* approach. Previous literature has discussed the determinants of tax avoidance mainly focusing on firm-level characteristics, such as capital structure, foreign operations, firm performance (Rego 2003; Gupta and Newberry 1997), managers' compensation incentives (Rego and Wilson 2012; Phillips 2003; Desai and Dharmapala 2006), ownership structures (Klassen 1997; Chen et al. 2010; McGuire et al. 2014) and managers' personality traits (Chyz 2013; Olsen and Stekelberg 2016; Kubick and Lockhart 2017; Chyz et al. 2019).

This study takes a different and broader perspective from existing literature, stressing the role of external pressures rather than firm-level characteristics. Drawing on stakeholder theory, this chapter proposes a model which explains and describes how corporate decision-making around tax and, consequently, the choice to engage in tax avoidance or to adopt more ethical and socially responsible tax practices, can be influenced by organisational stakeholders. This theorisation is built on the premise that stakeholders can play a major role in enhancing ethical business conduct and, at the same time, that they bear part of the responsibility for corporate wrongdoing (Goodstein and Wicks 2007; Fassin 2012). The model starts by depicting how stakeholders may vary in their preferences over corporate tax policies, using the widely accepted distinction between *self*- and *other*-regarding stakeholders (Bridoux et al. 2011; Bridoux and Stoelhorst 2014; Hahn and Albert 2017). Subsequently, the model describes the mechanisms with which other-regarding stakeholders can influence a firm's decision-making around tax policies and, by doing so, contribute to the transition from the *tax-as-cost* to the *tax-as-contribution* approach.

## 6.2 Stakeholder theory and stakeholder shared responsibility

This chapter builds on stakeholder theory to provide a broader approach to the determinants of corporate decision-making around tax, especially of the choice between the *tax-as-cost* and the *tax-as-contribution* approach.

Stakeholder theory is used as an umbrella term for a genre of theories concerning “organisational management and ethics” (Philips et al. 2003, p. 480) that, most fundamentally, “specifies the obligations that companies have to their stakeholders” (Freeman et al. 2010, p. 308) and the obligations that stakeholders have to the firm and other stakeholders (Goodstein and Wicks 2007; Fassin 2012). Stakeholder thinking conceives of a firm as an organisational entity through which numerous and diverse participants (i.e., stakeholders) accomplish multiple, and not always entirely congruent, purposes (Donaldson and Preston 1995, p.70). Central to this theory is the widely discussed definition of stakeholders (e.g., Clarkson 1995; Kaler 2002; Phillips 2003; Mitchell et al. 2007; Parent and Deephouse 2007; Crane and Ruebotton 2012), who were originally defined as “any group or individual who can affect or is affected by the achievement of the firms’ objectives” (Freeman 1984, p. 25). Following this theory, the purpose of a corporation is to “serve as a vehicle for coordinating stakeholder interests” (Evan and Freeman 1988, p. 103) and managers are admonished to create “as much value as possible for stakeholders” (Freeman et al. 2010, p. 9).

The core idea of (instrumental) stakeholder thinking is that firms which attend to the interest of a broad group of stakeholders will enjoy higher levels of performance than firms that focus primarily on one or a few stakeholders (Jones 1995; Harrison et al. 2010; Jones et al. 2018). To maximize its value, a firm is well advised to “manage stakeholder relationships by identifying how its actions affect or are affected by stakeholder welfare” (Garriga 2014, p. 492). Managing for stakeholders means acting in a way that “demonstrates to stakeholders that it understands and respects how their welfare is affected” (Harrison et al. 2010, p. 62). Since stakeholder theory predicts that firms’ behaviour should be consistent with stakeholders’ preferences, interests and needs, and, consequently, that organisational behaviour “reflects and can be predicted by the nature of its diverse stakeholders, the norms that they adopt to define right or wrong, and their relative influence on organisational decisions” (Helmig et al. 2016, p. 153).

Over the last decades, stakeholder thinking has been broadened by a stream of research which has begun to investigate more in-depth the stakeholder-side of the relationship. Initially scholars studied how stakeholders attempt to influence organisations (Frooman 1999; Rowley 1997) and why stakeholders mobilise against a focal firm (Rowley and Moldoveanu 2003). Drawing on social network analysis, Rowley (1997) examined how the structural properties of a stakeholder network, namely network density and the focal organisation's centrality, impact the focal organisation's degree of resistance to stakeholder pressures. Frooman (1999) showed that the balance of power implied by the stakeholder-firm resource relationships determine which strategies a stakeholder will use to influence a focal firm, i.e., direct or indirect withholding (stakeholders choose not to allocate their resources to the firm), direct or indirect usage strategies (stakeholders supply their resources to the firm but with strings attached). Thus, stakeholders can influence a company by directly controlling the flow of resources to the firm and by taking indirect action against a target firm. Subsequently, Rowley and Moldoveanu (2003) showed how members of a stakeholder group mobilise to influence the focal organisation either to protect their interests or to express their identity. It is clear that, through their pressure on firms and reactions to corporate actions and decisions, stakeholders can influence organisational decisions in many aspects of corporate life, especially in those that lie in the intersection between business and society. Previous literature has revealed that stakeholders play a leading role in driving firms to implement strategies and activities concerning social and ethical issues (Yang and Rivers 2009; Lee 2011; Helmig et al. 2016; Vashchenko 2017).

Research on the stakeholder side was significantly expanded by Goodstein and Wicks (2007), who recognized the importance of emphasising "the role of stakeholders … in fostering ethical business practices and business excellence" (p. 375). Their intuition to study the influence of stakeholder behaviour on a firm's ethical conduct was a truly innovative element for stakeholder theory, since it had tended to "cast firms and their managers as heroes or villains and stakeholders as passive recipients of good deeds" (Bridoux and Vishwanathan 2020, p. 252). Goodstein and Wicks (2007) contend that firms and stakeholders conduct business within a regime of '*shared responsibility*', where "networks of individuals work together (both within and across organisations) to get things done and avoid ethical breakdowns" (Goodstein and Wicks 2007, p. 380).

The construct of *stakeholders' shared responsibility* emphasises that, as firms have moral obligations to stakeholders, stakeholders should acknowledge and accept that they have reciprocal duties and responsibilities to the firm and to other stakeholders (Fassin 2012; Rusconi 2019). From this perspective, stakeholders, and not only corporations, might bear part of the responsibility for unethical and socially irresponsible business behaviour: if they pursue only their personal interests without taking into account the needs of other stakeholders, it is more likely that corporate wrongdoings will occur (Elms 2006; Diener and Small 2019).

## 6.3 The heterogeneity of stakeholders' tax preferences

The purpose of this chapter is to examine the influence of stakeholders in corporate decision-making around tax. To this end, it investigates how the characteristics of a firm's stakeholder landscape can contribute towards determining whether that firm's tax affairs are managed under the *tax-as-cost* or the *tax-as-contribution* approach.

The starting point of the analysis is to understand the preferences and the needs of stakeholders with regard to corporate tax policies. Some preliminary insights into stakeholder tax preferences can be obtained from the stream of research investigating the relationships between a firm's corporate social performance and its level of tax avoidance. As discussed in chapter 3, while a group of studies document that firms with higher CSR performance are less likely to engage in tax avoidance (e.g., Hoi et al. 2013; Lanis and Richardson 2012; Muller and Kolk 2015), other studies report the opposite, i.e., that firms with higher CSR performance are more likely to engage in tax avoidance (e.g., Davis et al. 2016; Fallan and Fallan 2019; Col and Patel 2019). If we accept that companies with high CSR performance are those companies that, among other things, consider and respect the needs and the interests of their stakeholders (Dahlsrud 2008; Sarkar and Searcy 2016), these results can be interpreted as revelatory of the fact that organisational stakeholders have different preferences over corporate taxation. Therefore, companies may face stakeholders who demand them to minimize their tax burden (i.e., *tax-as-cost*) or stakeholders who put them under pressure to refrain from tax avoidance and pay their fair share of taxes (i.e., *tax-as-contribution*).

In the next sections the tax preferences of stakeholders are investigated more thoroughly. Preliminarily, the distinction between *self*- and *other*-regarding stakeholders is introduced as useful framework for understanding under which conditions stakeholders prefer the tax-as-contribution over the tax-as-cost approach, or vice versa.

### *6.3.1 Self-regarding vs. other-regarding stakeholders*

At the core of stakeholder theory there is the idea that creating more value for all stakeholders will allow firms to achieve better financial performance in the long-term (e.g., Jones 1995; Harrison et al. 2010; Jones et al. 2018). Thus, the concept of value from the perspective of stakeholders (i.e., *stakeholder value*) is central to understanding the process of value creation in the firm (Harrison and Wicks 2013). Lankoski and Smith (2016, p. 228) define stakeholder value as "the subjective judgment of a stakeholder, occurring at the individual level, of the total monetary and non-monetary utility experienced as a result of some decision or action by an organisation". As noted by Garriga (2014, p. 491) stakeholder value "means different things to different stakeholders", since stakeholders can exhibit different preferences over corporate activities and different motivations behind their relationships with firms.

The preferences of stakeholders are incorporated in the *stakeholder utility function* that includes "both factors that drive utility for stakeholders and the weightings stakeholders assign to these factors" (Harrison et al. 2010, p. 59). As argued by Harrison and Wicks (2013), the factors that may drive utility for stakeholders include both a material and financial component (i.e., the economic value associated with the physical goods and services provided by the firm), and an immaterial and non-monetary dimension, namely the benefits associated with dealing with organisations that operate within norms of fairness and reciprocation (i.e., *organisational justice*) or that exhibit characteristics that are consistent with things that stakeholders value (i.e., *organisational affiliation*).

The relative weighting that stakeholders attribute to these drivers of utility depends on their personality traits and the motivations behind their interactions with firms. Drawing on behavioural economics and social psychology literature (Fehr and Fischbacher 2002; Fehr and Gintis 2007; Song and Kim 2018), stakeholder theorists have acknowledged that firms face a population of stakeholders driven by different motivations, ranging from *self-regarding* (or opportunistic) to *other-regarding* (or reciprocal) (Bosse et al. 2009; Hahn 2015; Hahn and Albert 2017; Bridoux and Stoelhorst 2014; Bridoux and Vishwanathan 2020).

While self-regarding stakeholders are concerned with the personal material outcomes they can gain through their relationships with firms, other-regarding stakeholders are driven by the perceived fairness of payoffs to both themselves and others (Hahn and Albert 2017; Bridoux and Vishwanathan 2020). The heterogeneity of stakeholders' motives (i.e., the distinction between self-regarding and other-regarding stakeholders) has been introduced as an important element of stakeholder behaviour, for a better understanding of the contribution of stakeholders to value creation (Bosse et al. 2009; Bridoux and Stoelhorst 2014), the implementation of normative demands for prosocial corporate behaviour (Hahn 2015), the influence of stakeholders on managerial choice (Bridoux and Vishwanathan 2020) and the participation of consumers in boycotts against a firm (Hahn and Albert 2017).

It is important to note that the extent to which stakeholders care about others is a trait of their social identity (Crane and Ruebottom 2011), which transcends their economic roles. Therefore, self- and other-regarding stakeholders may coexist, at the same time, within the same traditional economic categories (e.g., shareholders, consumers, and employees)[33].

The distinction between self-regarding and other-regarding stakeholders can be useful for conjecturing about stakeholder claims and preferences over corporate tax policies, as discussed in the following sections.

### *6.3.2 Tax preferences of self-regarding stakeholders*

As a first step, this section focuses on the tax preferences of stakeholders whose orientation towards others mainly lies closer to the self-regarding model. As mentioned above, stakeholders exhibiting a self-regarding orientation consider their experiences with organisations as a means to serving their own financial interests and "see little benefit in the firms addressing the needs of other stakeholders" (Bridoux and Vishwanathan 2020, p. 239). Since self-regarding stakeholders are driven primarily by their personal monetary gains (Bridoux and Stoelhorst 2014), their utility function will give more weight to the financial and economic outcomes they obtain through interactions with firms, rather than fairness and other immaterial factors. Moreover, they tend to use

[33] I am grateful to one of the reviewers for this suggestion.

their bargaining power to appropriate a substantial share of the value created by firms (Bridoux and Vishwanathan 2020).

Thus, when it comes to corporate tax policies too, it can be reasonably argued that the claims and preferences of self-regarding stakeholders are strictly dependent upon the expected contribution to their economic utility without any care for the consequences on other stakeholders. Then, they are likely to express a preference for those tax policies that maximize the economic rewards to themselves, over those tax strategies that ensure a fair treatment of all stakeholders. For this reason, self-regarding stakeholders are likely to value firms that frame tax as a cost to be minimized more than firms that consider tax as a contribution to society. Indeed, the minimization of corporate tax payment through tax avoidance strategies could be perceived as financially beneficial for various stakeholder categories, at least in the short-term:

- Shareholders may see tax avoidance as a means of increasing after-tax profits and, then, the value of their firm's shares (Desai and Hines 2002; Blaufus et al. 2019; Drake et al. 2019; Tang; 2019).
- Managers may view tax avoidance as an opportunity for increasing their remuneration (Huang et al. 2018; Rego and Wilson 2011; Gaertner 2014; Taylor and Richardson 2014; Taylor et al. 2015; Minnick e Noga 2010; Armstrong et al. 2012), or creating a shield for other opportunistic activities (Desai and Dharmapala 2006; 2009; Chen et al. 2010; Lim 2011).
- Governments may offer favourable tax deals or tax reductions to companies as a means to enhance the personal power and the social consensus of politicians[34], or to boost the financial performance of politically-connected (Lin et al. 2018; Shan et al. 2019) or government-controlled firms (Tang 2017). Furthermore, although governments may offer preferential tax treatments to attract foreign firms to base their headquarters (and to shift their profits) in their countries (e.g., tax havens) in order to benefit the community, they may be still considered self-regarding from the perspective of other countries (and other communities) which are deprived of the financial resources of firms which operate (and benefit from public goods and services) in their jurisdictions.

[34] I am grateful to one of the reviewers for this suggestion.

- Tax practitioners may sell and market aggressive tax avoidance schemes and services to boost their profit (e.g., Sikka and Hampton 2005; Stuebs and Wilkinson 2010; Sikka 2008; Addison and Mueller 2015; Frecknall-Hughes et al. 2017; Jones et al. 2018).
- Employees may approve tax avoidance in the hope that, by reducing business cost, it will have a positive effect on employment growth and wages (Shuai and Chmura 2013; Zirgulis and Šarapovas 2017; Serrato and Zidar 2016; Fuest et al. 2018).
- Customers may see tax avoidance as a means of obtaining lower prices or improving the quality of the products (Dowling 2014, p. 183).
- Suppliers may view the tax planning strategies of their clients as an opportunity to make their tax avoidance activities less costly, since close customer-supplier relationships can reduce the costs associated with information acquisition, negotiation, implementation, and tax compliance documentation (Cen et al. 2017).
- Competitors may consider tax avoidance among their peers positively because this may reduce the risk of being scrutinized by tax authorities or incurring reputational costs (Armstrong et al. 2019; Loretz and Moore 2013).

To summarize, stakeholders who exhibit a self-regarding orientation are likely to perceive the payment of tax as a cost in the maximization of their economic utility and, then, to value corporate tax strategies aimed at minimizing the corporate tax burden. Since they do not care about fairness or the treatment of others, they are not concerned that tax avoidance strategies can be harmful to other stakeholders such as members of the communities where firms operate.

### *6.3.3 Tax preferences of other-regarding stakeholders*

Now this section turns to discuss the tax preferences of stakeholders who mostly exhibit a behaviour close to the other-regarding model. As seen for self-regarding stakeholders, there might be other-regarding stakeholders within all the traditional economic categories.

Reciprocity has been conceptualised as an alternative to the assumption of self-interest and opportunism among stakeholders. The key personality trait of other-regarding stakeholders is the care they show for fairness: they are concerned not only about how fairly they are treated themselves (*direct* reciprocity) but also how fairly other stakeholders are treated, even if there is no interaction or interest between the reciprocator and this third actor (*indirect* reciprocity). This genuine care for fairness per se leads them to reward fair (i.e., *positive* stakeholder reciprocity), and punish unfair (i.e., *negative* stakeholder reciprocity) stakeholder treatment by firms (Bridoux and Stoelhorst 2014). Differently from self-regarding stakeholders, other-regarding stakeholders tend to recognise and respect other stakeholders' well-being even in the absence of personal economic incentives to do so (Hahn and Albert 2017). Furthermore, the utility function of other regarding stakeholders is likely to assign more importance to the intangible benefits they can experience through interactions with a firm (e.g., how fairly stakeholders are treated) over the material outcomes they can obtain. For instance, other-regarding stakeholders are more likely to participate in a consumer boycott (Hahn and Albert 2017), to refrain from using their bargaining power to appropriate as much value as possible (Bridoux and Vishwanathan 2020), to contribute to value creation if firms adopt a fairness approach (Bridoux et al. 2011; Bridoux and Stoelhorst 2014) and to influence companies in favour of prosocial behaviour (Hahn 2015).

Then, similar behaviour can be adopted when it comes to corporate tax policies. First of all, it is reasonable to posit that other-regarding stakeholders' care for fairness shape their preferences over a firm's tax behaviour. Therefore, they will prefer those corporate tax policies that guarantee a fair treatment of all, or at least the majority of, stakeholders rather than those strategies that maximize their personal financial returns. For assessing the implications of corporate tax policies (i.e., the *tax-as-cost* and the *tax-as-contribution* approach) in terms of how fairly stakeholders are treated, the next sections draw on Rawls' (1971) theory of justice and Phillips' (1997) principle of stakeholder fairness.

#### *6.3.3.1 Other-regarding stakeholders' negative perception of the tax-as-cost approach*

First, this section shows how John Rawls' (1971) ethical theory, that is founded on the concept of justice and fairness, leads to the conclusion that other-regarding stakeholders tend to perceive tax avoidance negatively.

According to Rawls, a just society is based on reciprocity, cooperation, and mutual respect among citizens. In order to establish obligations for individuals, Rawls introduced the principle of fairness that asserts that members of society who have voluntarily accepted the benefits provided by a society and its institutions are bound by a duty of 'fair play' to do their part. Rawls established a deontological framework to guide decision makers towards solving the ethical issues behind a 'veil of ignorance' (i.e., without any knowledge of their attributes or roles in society). This framework is based on three criteria: (i) '*the principle of equal liberty*': each person is to have an equal right to the most extensive basic liberties compatible with similar liberties for all; (ii) '*the difference principle*': social and economic inequalities are to be arranged so that they are to the benefit of the least advantaged; (iii) '*the principle of fair equality of opportunity*': those most disadvantaged in society should have the best opportunities under conditions of fair equality of opportunity.

The deontological framework of Rawls has been applied to evaluate the fairness of corporate tax policies and, in particular, of tax avoidance. A number of scholars has reached the conclusion that framing the payment of tax as a cost and engaging in tax avoidance to minimize the tax burden, result in an unfair treatment of stakeholders (Raiborn et al. 2015; Gribnau 2017; Payne and Raiborn 2018). Indeed, tax avoidance is said to violate the 'principle of equal liberty' since it provides multinational companies with unfair competitive advantages over small-medium enterprises (SMEs) and domestically-based competitors who do not have the same abilities or resources to engage in complex tax planning. Second, tax avoidance is argued to violate both the 'the difference principle' and 'the principle of fair equality of opportunity' since it creates, or exacerbates, social inequalities which do not benefit the 'least advantaged' in society in any way. Indeed, tax avoidance constrains the ability of governments to provide public goods and services (e.g., education, national defence, public health care, law enforcement, public transport, etc.), being particularly harmful to the less well-off, the elderly and the vulnerable, and shifts a larger share of the tax burden from MNEs to SMEs and individual taxpayers (Prebble and Prebble 2010; Preuss 2012b; de Colle and Bennett 2014).

The application of Rawls' theory of justice to corporate taxation allows us to conclude that other-regarding stakeholders are likely to perceive tax avoidance negatively, since it results in the unfair treatment of some categories of stakeholders. This negative assessment of corporate tax avoidance is exacerbated by the fact that corporate tax avoidance perpetuates harm on stakeholders without sufficient agency to escape (Harrison and Wicks 2019), such as the members of local communities where firms operate. Local communities often suffer from negative externalities resulting from corporate activities (e.g., air, water or noise pollution) which are not repaired when corporate taxes are not paid or are paid in other countries. Unlike other stakeholders who can decide whether to continue with the firm (Bosse and Coughlan 2016) and then leave a relationship if they are dissatisfied with the way they are treated (Freeman et al. 2004, p. 365), local communities might be so dependent on the employment provided by companies that they have limited ability to remove themselves from the undesirable situation and cancel their relationship with tax-avoiding firms.

#### *6.3.3.2 Other-regarding stakeholders' positive perception of the tax-as-contribution approach*

After having said that other-regarding stakeholders are likely to exhibit a negative orientation towards the tax-as-cost approach, this section turns to examine why other-regarding stakeholders are likely to perceive the tax-as-contribution approach positively. Towards this end, these ideas are grounded on Phillips' (1997) principle of stakeholder fairness that was proposed as normative justification for stakeholder management:

> "Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among the participants in the co-operative scheme in proportion to the benefits accepted" (Phillips 1997, p. 57).

According to this principle, companies have a duty of fair play to groups or individuals who are voluntary members of a cooperative scheme for mutual benefit. The stakeholders to whom the organisation has an obligation of fairness include the communities where the companies operate. Indeed, the company-community relationship fulfils all the preconditions outlined by Phillips (1997) for qualifying a transaction as a cooperative scheme in which the duty of fair play is operative: i) mutual benefit; ii) sacrifice or restriction of liberty on the part of the participants; iii) the possibility of free-riders; iv) voluntary acceptance of the benefits of the cooperative schemes.

First, it is apparent that the relationship between business and community is a "mutual exchange of value" (Payne and Raiborn 2015, p. 475). On one hand, companies, like individuals, benefit from the community in which they operate by using public goods and services (e.g., good infrastructure, a just legal system, and an educated workforce). In a nutshell, without a well-functioning community, a business would not prosper (Jenkins and Nowell 2013; Munisami 2017). On the other hand, it is undeniable that local communities can also benefit "from the tax base and economic and social contribution of the firm" (Freeman et al. 2010, p. 25). The second condition for qualifying as a cooperation scheme requires participants to make a sacrifice or restrict their liberty. The same Phillips (1997, p. 56) admits that this condition is typically fulfilled in a relationship between a company and a community, since "when a community allows a company to build a plant in its vicinity, it sacrifices its land and many other resources to the cooperative venture with the company and the company sacrifices some of its capital assets as well". Additionally, a company restricts its freedom by accepting to be bound by the law that regulates the community in which it operates. Third, as in any economic transaction, also in the relationship between company and community the possibility of free riders exists. Finally, the fourth condition requires the benefits of the scheme to be accepted voluntarily. It is evident that, generally, in a relationship between a company and a community no form of coerced consent exists either in the agreement or in the acceptance of benefits, since a company voluntarily decides where to operate and a community can decide the extent to which it benefits from a company operating in its territory. Nevertheless, this may not be true when local communities are so poor and the need for the workplace is so great that the choice to enter a relationship with companies cannot be considered as totally voluntary.

In conclusion, the relationship between a company and a community fulfils all the preconditions to be qualified as a 'cooperative scheme', under Phillips's (1997) principle of stakeholder fairness. Consequently, the community acquires the status of stakeholder to whom companies have a duty of fair play, which must necessarily include the obligation to pay a fair share of tax. Indeed, the payment of corporate tax is an essential component of the mutually beneficial cooperative scheme between businesses and communities since it enables communities to have access to essential public services, including healthcare, education and public infrastructure, as well as to raise their standards of living, increase gender equality and build well-functioning economies. When companies engage in tax avoidance, they become economic free riders that enjoy the benefits of a community without accepting the costs (Christensen and Murphy 2004; Fisher 2014).

To conclude, other-regarding stakeholders value companies that are committed to paying a fair contribution in whichever community they operate, even if these stakeholders, who might belong to any of the traditional economic categories (e.g., shareholders, consumers, employees, etc.), cannot rationally expect to yield any instrumental benefits.

## 6.4 The influence of other-regarding stakeholders on corporate tax decision-making

So far, this chapter have conjectured that a firm's tax policies can be influenced by the relationships with its stakeholders, whose tax preferences are related to their personality traits (i.e., the extent to which stakeholders care about others). Previous sections have discussed how self-regarding stakeholders are likely to exhibit a positive orientation towards the *tax-as-cost* approach, as a way of maximizing their financial returns, whereas other-regarding stakeholders interpret tax as a contribution rather than as a cost to be minimized to ensure that all stakeholders are treated fairly.

Now, the question as to how stakeholders can influence corporate decision-making around tax is addressed. Then, the following sections investigate the reasons why being surrounded by stakeholders who mostly exhibit a self- or other-regarding behaviour can influence corporations' decisions and behaviour when it comes to tax. In particular, the focus will be on the mechanisms with which other-regarding stakeholders can drive the transition towards more ethically and socially responsible tax policies.

First, there is the need to acknowledge that self-regarding and other-regarding stakeholders operate in a network of stakeholder relations around the firm (Rowley 1997) in which they are in permanent competition to gain managerial attention. In this context, firms must take sides in deciding which stakes to prioritise over others and, then, whether to manage their tax policies from the *tax-as-cost* perspective (to fulfil the demands of self-regarding stakeholders) or the *tax-as-contribution* perspective (to fulfil the demands of other-regarding stakeholders). Mitchell et al. (1997) provide the most popular theoretical model to determine which stakeholders managers really need to pay attention to in their corporate decision-making. The authors identify three determinants of stakeholder salience: *power* (i.e., the ability of the stakeholder group to impose its will), *legitimacy* (i.e., the extent to which the stakeholder group's relationship with the firm is socially accepted and expected), and *urgency* (i.e., the degree to which stakeholder claims call for immediate attention). This model was extended by Jones et al. (2007) who introduce the construct of 'stakeholder culture' - defined as a firm's beliefs, values and practices to manage relationships with stakeholders - as a factor that contributes / helps to "influence the perceptions of managers regarding the ascription and subsequent weighting of the three attributes (power, legitimacy, and urgency) of the claims of stakeholder groups" (Jones et al. 2007, p. 151). Jones et al. (2007) identify various types of stakeholder cultures that lie on a continuum ranging from individually self-interested to fully other-regarding. According to Jones et al.'s (2007) framework, firms take care of stakeholders for two opposite lines of thought. On the one hand, there are firms that take into account stakeholders' demands and needs only to the extent that this is beneficial to their financial performance (i.e., *instrumentalist* stakeholder cultures). On the other hand, there are firms that genuinely care and are concerned about stakeholder interests and, as a result, they treat all stakeholders fairly and with respect, regardless of economic temptations to shed them (*moralist* stakeholder cultures).

Drawing on Jones et al.'s (2007) model, the author argues that the mechanisms with which other-regarding stakeholders can influence corporate decision-making regarding tax differ depending on which stakeholder culture is dominant in the focal firm. In particular, the following sections discuss why firms with instrumentalist and moral stakeholder cultures are more likely to adopt the *tax-as-contribution* approach when the firm is mostly surrounded by other-regarding stakeholders, who become salient according to Mitchell et al.'s (1997) framework.

### *6.4.1 The instrumental salience of the 'tax-as-contribution' approach*

As mentioned previously, firms with instrumentalist cultures fulfil stakeholders' demands only in the presence of economic incentives to do so, namely when the stakeholder issue is perceived as material to the firm's competitive advantage and financial performance (Jones et al. 2007).

The scarce diffusion of the *tax-as-contribution* approach among companies can be explained by the fact that tax avoidance is commonly perceived as instrumentally sound behaviour, because tax savings enhance after-tax profits and financial cash flows. However, the impact of tax avoidance on firm value is more complex and controversial. While some studies have corroborated the view that tax avoidance is positively associated with firm value (Desai and Hines 2002; Blaufus et al. 2019; Drake et al. 2019; Tang 2019), other scholars have revealed that tax avoidance might not always be beneficial to firms (Cloyd et al. 2003; Desai and Dharmapala 2009; Brooks et al. 2016) and that stock prices may even decline when news spreads about a firm's involvement in tax avoidance (Hanlon and Slemrod 2009; Abdul Wahab and Holland 2012).

The inconsistency of these findings suggests that there may be a mediating factor (or more than one) that affects the relationship between a firm's tax behaviour and its financial performance. This study posits that the characteristics of the stakeholder landscape have the potential to alter the financial costs and benefits associated with corporate tax avoidance and, subsequently the extent to which the *tax-as-contribution* approach is perceived as instrumentally sound by corporates.

Indeed, companies depend on stakeholders for one of the most important intangible resources for a firm's sustained competitive advantage, namely corporate reputation (e.g., Fombrun and Shanley 1990; Roberts and Dowling 2002). Corporate reputation results from a process of "subjective collective assessments of the trustworthiness and reliability of firms" (Fombrun and Van Riel 1997 p. 10), reflecting "the extent to which external stakeholders see the firm as 'good' and not 'bad'" (Roberts and Dowling 2002, p. 1078). Thus, the development of corporate reputation is related to stakeholder expectations, perceptions and the evaluation of business conduct: "reputational capital depends on stakeholder support" (Branco and Rodrigues 2006, p. 123). As a consequence, reputational capital is at risk when a company "fails to meet the needs of the specific stakeholder groups … reputation risk lies in the gap between the stakeholder expectation and company performance" (Brady and Honey 2007, p. 17).

The link between corporate tax policies and corporate reputation has become increasingly salient in recent years because firms that are perceived as not paying a fair share of taxes have faced strong criticism from the media (Kanagaretnam et al. 2018; Chen et al. 2019), with big corporate names (e.g., Amazon, Apple, Facebook, Google and Starbucks) described as poor corporate citizens because of their tax avoidance practices (Shaheen 2012). The media reduce information asymmetry between companies and stakeholders (Barnett 2014; Kölbel et al. 2017; Carberry et al. 2018) and, consequently, play a major role in shaping a firm's reputation (Wartick 1992; Carroll and McCombs 2003; Brammer and Millington 2005; Meijer and Kleinnijenhuis 2006; Einwiller et al. 2010). However, the effective impact of the media coverage of tax avoidance on a firm's reputational capital depends on how stakeholders assess and react to this news. In other terms, the extent to which tax avoidance constitutes a reputational risk depends on stakeholders' expectations and reactions, and then on the degree to which this specific issue challenges stakeholders' beliefs about organisations. Consequently, not all companies which are 'named and shamed' over tax avoidance face equal damage to their reputation.

When a firm is mostly surrounded by self-regarding stakeholders, who evaluate corporate actions and outcomes only in terms of the maximization of their financial utility, news about that firm's involvement in tax avoidance is not likely to damage its reputation. Indeed, self-regarding stakeholders will not perceive a firm's involvement in tax avoidance as inconsistent with their expectations and, therefore, this news will not alter their general assessment of that firm. This line of reasoning can explain why Baudot et al. (2020) report that lower corporate tax rates do not consistently translate into a lower corporate reputation ranking and that "firms with some of the highest corporate reputations - Alphabet, Apple, and Microsoft - represent firms with some of the lowest corporate tax rate" (Baudot et al. 2020, p. 205).

Conversely, media coverage of corporate tax avoidance is likely to have a substantial impact on the judgement of other-regarding stakeholders, who are genuinely concerned about the fairness of firms' tax policies. Information about a firm's involvement in morally dubious tax practices will damage other-regarding stakeholders' assessment about the desirability and appropriateness of the overall organisation. As a consequence, other-regarding stakeholders may use their power to punish firms involved in unfair tax conducts, even if this is costly and provides neither present nor future rewards (Hahn 2015) [35]. By doing so, they will constrain corporate incentives to engage in tax avoidance (Graham et al. 2014; Austin and Wilson 2017; Mansi et al. 2020). For instance, in 2012, in response to allegations by the media and British politicians, Starbucks decided to make a voluntary corporation tax contribution of £20m (Campbell and Helleloid 2016). Different stakeholder categories can adopt different mechanisms to react to corporate tax avoidance and, then, raise corporate awareness about its reputational consequences. For instance, consumers can use their purchasing power to boycott tax avoiding firms (Hardeck and Hertl 2014; Hardeck et al 2019), as occurred to Starbucks (Thompson and Houlder 2012) and Amazon (Garside 2014). Similarly, investors can include tax-related

[35] This mechanism assumes that stakeholders can cancel the relationships with tax avoiding firms and start a relationship with another firm, offering the same goods or services. This mechanism does not work when tax avoiding firms have a monopoly over the provision of certain goods or services.

criteria in their assessment process and exclude tax avoiding companies from their portfolio. Anecdotal evidence reveals the growing concern of SRIs, and then of providers of environmental, social and government (ESG) data and socially responsible indexes, about how companies approach their tax responsibility (UN PRI 2015; 2018; RobeccoSAM 2018). Finally, employees can rely on unionization (Chyz et al. 2013) and whistleblowing (Wilde 2017) to punish tax avoiding companies. For instance, a former Google employee blew the whistle on a massive tax avoidance scheme (Duke and Ungoed-Thomas 2013).

To summarize, firms with instrumentalist stakeholder cultures decide whether to serve the tax demands of self-regarding stakeholders (i.e., the *tax-as-cost* approach) or other-regarding stakeholders (i.e., the *tax-as-contribution* approach) according to the perceived consequences for their firm's financial performance. The impact of corporate tax policies on corporate reputation is a major variable within this analysis. Indeed, when firms are mostly surrounded by other-regarding stakeholders, who evaluate news about a firm's involvement in tax avoidance as a signal of negative business conduct, and are willing to use their power to punish that firm, it is likely that corporates will perceive tax avoidance as a reputational risk which may reduce business opportunities with stakeholders and lead to financial losses that outweigh the tax savings.

### 6.4.2 The moral salience of the 'tax-as-contribution' approach

Jones et al. (2007) argue that firms with a moral culture have a strong and genuine concern for treating all stakeholders fairly and with respect, regardless of economic temptations to shed them. Whatever the ethical source of moral standards (e.g., utilitarianism or Kantian principles), for firms with a culture of moral concern, others will always come first. These firms "will violate their moral standards only when it is necessary to ensure firm survival" (Jones et al. 2007, p. 149).

Furthermore, firms with a moral culture will consider tax-related demands from other-regarding stakeholders as worthy of attention as long as they perceive the payment of a fair share of tax to be a moral obligation to enhance stakeholders' well-being. A firm's tendency to recognise tax as a moral obligation, and the intrinsic motivation to pay taxes irrespective of the likelihood of being sanctioned for non-compliance, is known as the '*firm's tax morale*' (e.g., Ahmed and Braithwaite 2005; Alm and McClellan 2012;

Yücedoğru and Hasseldine 2016). The intrinsic motivation to pay tax "may come from the desire to be a good citizen or from the desire to contribute to the common good" (Ahmed and Braithwaite 2005, p. 541). Then, companies with high (low) tax morale perceive that the payment of corporate tax is (not) the right thing to do to enhance their stakeholders' well-being. Yücedoğru and Hasseldine (2016) have found that various factors can influence a firm's tax morale, such as compliance costs, professionalism, the effect of tax advisors, company structure, size of economic obligation and risk aversion.

However, it is suggested that the same stakeholders can also contribute towards influencing a firm's intrinsic motivation to pay tax through their behaviour. Many studies on individuals' tax morale have revealed the importance of external factors, such as government and society, in shaping such a morale (Pope and Mohdali 2010). In particular, external social norms and peer influence have been found to have a significant influence on taxpayers' intrinsic motivation to pay taxes (Torgler 2004). As argued by Kirchler et al. (2008, p. 218) "If taxpayers believe that non-compliance is widespread and approved behavior in their reference group, they are likely to be non-compliant as well".

Therefore, it is possible to conjecture that a firms' tax morale is also influenced by external factors, such as the tax behaviour of their stakeholders. When companies are mostly surrounded by self-regarding stakeholders, who create a culture where tax avoidance is not rejected and even promoted, it is more likely that they will not perceive the payment of tax as a moral obligation (Yoo and Lee 2019). Conversely, when firms are mostly surrounded by other-regarding stakeholders who share the belief that all individuals and corporate citizens have a civic and moral duty to pay a fair share of taxes, they are more likely to interpret corporate taxation as a moral issue and to perceive corporate tax avoidance as unethical and norm-deviant behaviour (Hasan et al. 2016; Su and Tan 2018 Chircop et al. 2018; Gao et al. 2019).

A major influence in shaping a firm's tax morale is exerted by governments, NGOs, and competitors.

First, governments have the primary responsibility for collecting tax revenues and for using them to provide public goods and services. Therefore, the extent to which firms interpret the payment of tax as a contribution to improve stakeholders' well-being strictly depends on how governments are perceived to use and invest tax revenues. When firms operate in countries where (self-regarding) governments are not efficient in administrating public resources, due to low effectiveness and regulatory quality, high corruption and weak law enforcement (Zeng 2019b; Li and Ma 2015; Lin et al. 2017; Shevlin et al. 2017), or even tax avoidance behaviour among politically-connected firms (Shan et al. 2019; Deng et al. 2018; Lin et al. 2018), it is less likely that those firms will perceive the payment of a fair share of tax (i.e., the *tax-as-contribution* approach) as the morally right thing to do. Instead, in these circumstances, it is more likely that firms will try to minimize their tax burden to invest tax savings in a higher number of corporate-level programs and initiatives to pursue stakeholders' well-being, acting as substitutes to corrupt or inefficient governments (McGee 2010; Davis et al. 2016).

Second, a firm's tax morale can be influenced by NGOs and social activists. Indeed, these stakeholders, who are by definition other-regarding, can raise a firm's awareness about the societal impact of corporate tax behaviour by framing this issue in a manner that appeals to corporate decision-makers' moral values. Thus, in many reports NGOs have highlighted the link between corporate tax avoidance and various social issues, including the violation of human rights, global poverty, hunger and inequality (ActionAid 2013a; 2013b; Christian Aid and Enough Food for Everyone 2013; Oxfam 2014; Tax Justice Network and Christian Aid 2014). For instance, Christian Aid has revealed that tax dodging by MNEs costs developing countries US$160bn a year which is more than 1.5 times the combined aid budgets of the world and if it were invested in healthcare, it could save 350,000 children under the age of five each year (Christian Aid 2008; 2009).

Finally, the tax morale of firms can be shaped by the tax behaviour of their peers[36]. Stakeholder theorists consider competitors as derivative stakeholders, because, even if the organization has no special moral obligation to attend to their well-being, they can exert a significant influence on the firm (Phillips 2003; Phillips et al. 2003).

Consequently, the way in which competitors think upon and approach corporate tax payments can be a determining factor in affecting what a firm perceives as the morally thing to do when it comes to taxation. Indeed, when a company enters an industry where tax avoidance is widely ostracized and considered as a morally inappropriate practice it is likely that also that firm will perceive the tax minimization as the morally right thing to do. The influence of peers can be exerted also through participation in business and

[36] I am grateful to one of the reviewers for this suggestion.

industry associations, which can advance their members' awareness of the social implications of tax payments (ICC 2018; CBI 2018).

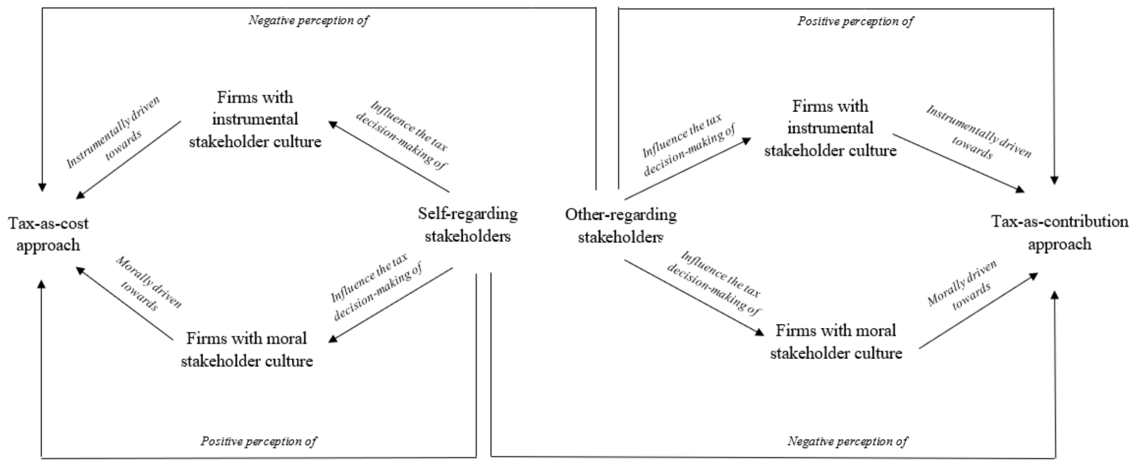
To summarize, firms with moral cultures base the choice between the *tax-as-cost* and the *tax-as-contribution* approach mainly on a moral assessment. They will follow the tax approach that is perceived to be the morally right thing to enhance the well-being of all stakeholders. When firms are mostly surrounded by other-regarding stakeholders who raise firms' tax morale, it is likely that firms will perceive the tax-as-contribution as the morally right approach compared to the tax-as-cost.

## 6.5 Conclusions

### *6.5.1 Contributions*

The main contribution of this chapter is the development of a conceptual model which explains and describes how stakeholders can influence corporate decision-making around tax policies. This model, presented in Figure 6.1, depicts the mechanisms and the dynamics through which stakeholders can induce a firm to embrace the *tax-as-cost* or the *tax-as-contribution* approach.

**Figure 6.1** The role of stakeholders in corporate tax decision-making: a conceptual model




The model starts from the widely accepted distinction between self-regarding and other-regarding stakeholders, to describe how stakeholders may vary in their preferences for corporate tax policies. Within any of the traditional economic categories (e.g., shareholders, consumers, employees, investors, etc.) there might be, at the same time, both self-regarding and other-regarding stakeholders.

On the one hand, self-regarding stakeholders consider their experiences with organisations as a means to serve their personal financial returns. Consequently, they are likely to value firms that frame tax as a cost to be minimized more than firms that consider tax as a contribution to society, since the former approach has the potential to maximize the economic rewards to themselves. Conversely, other-regarding stakeholders show a genuine care for how firms treat they stakeholders. Therefore, they express a preference for companies framing tax as a contribution, since this approach leads to a fair treatment of all, or at least the majority of, stakeholders. Furthermore, the model depicts the mechanisms and the dynamics with which stakeholders may induce firms to shift from one approach to corporate taxation to another one. For this purpose, the model distinguishes between firms with instrumentalist and moral stakeholder cultures (Jones et al. 2007). On the one hand, firms with instrumentalist stakeholder cultures consider stakeholder demands only if this is beneficial to financial performance. Consequently, these companies choice whether to embrace the *tax-as-cost* approach or the *tax-as-contribution* approach according to the perceived consequences for their financial performance. When firms with instrumentalist stakeholder are mostly surrounded by other-regarding stakeholders, it is more likely that they will perceive the tax-as-contribution approach as an instrumentally sound behaviour, due to the perceived reputational risk of tax avoidance. In this case, also the minority of self-regarding stakeholders surrounding the firm may change their stance towards corporate tax policies, because they may realise that the tax-as-contribution approach has the potential to boost their financial interests[37]. On the other hand, firms with moral stakeholder cultures exhibit a genuine care for all stakeholders treating all stakeholders fairly and with respect, regardless of economic temptations to shed them. These firms base the choice between the *tax-as-cost* and the *tax-as-contribution* approach mainly on a moral assessment. When these firms are mostly surrounded by other-regarding stakeholders who raise their tax morale, it is likely that they will perceive the tax-as-contribution as the morally right thing to do compared to the tax-as-cost.

This conceptual model has the potential to contribute to different streams of literature. First, it adds to the debate about the determinants of tax avoidance, responding to the call by Hanlon and Heitzman (2010) to study why some corporations avoid paying more tax

[37] I am grateful to one of the reviewers for this suggestion.

than others. This chapter has introduced the role of stakeholders for theorizing an alternative understanding of why companies engage in tax avoidance. Second, the chapter contributes to the debate around the role and the responsibility of stakeholders in enhancing (or constraining) ethical business conduct by providing a better understanding of how stakeholders can influence the corporate decision-making concerning a business ethics issue such as corporate taxation. Furthermore, the chapter adds to behavioural stakeholder literature by showing how stakeholder personality traits (i.e., the extent to which they care about others) can be decisive in affecting the ways they perceive corporate strategy and, consequently, deal with a firm.

### *6.5.2 Implications, limitations, and future research avenues*

This chapter has important implications for national and supranational policy makers (e.g., EU and OECD) that are devoting a great deal of effort to eradicating corporate tax avoidance.

The theorisation has stressed the key role of stakeholders in inducing companies to engage in tax avoidance or to approach their tax obligations in a more responsible and ethical way. Accordingly, the major implication is that tax avoidance could be definitively tackled only if organisational stakeholders abandon opportunistic behaviour, show a greater sense of solidarity with communities where companies operate and use their power to push companies not to engage in tax avoidance. In this way, the cooperation among internal and external stakeholders will make the case that "paying one's fair share of taxes is organisationally and economically beneficial" (Payne and Raiborn 2015, p. 481). Therefore, one important implication of this chapter is the need to intensify the governmental efforts to make stakeholders aware of the harmful impact of tax avoidance on society at large, and in particular on developing countries. More informational and awareness campaigns could be launched to educate stakeholders and boost their knowledge about the relationships between a firm's tax policy and wider social issues, in the hope of persuading stakeholders to move from a *self-* to an *other-regarding* orientation.

A second implication for policy makers is the need to enhance corporate tax transparency. Only if tax-related information is made public, can stakeholders become fully aware of a firm's tax affairs, and then use their power to punish tax conduct that is perceived as inappropriate (or reward tax conduct that is perceived as appropriate). Thus, stakeholders should be able to see and evaluate how firms approach their tax responsibilities, how much tax they pay and how their tax affairs impact on society.

Finally, at least two areas for future research emerge from limitations of the model proposed in this chapter. First, the model assumes that the degree to which stakeholders care about others (i.e., self-regarding vs. other-regarding stakeholders) does not change over time. However, this may be seen as a simplification since stakeholders may shift from a self-regarding to an other-regarding orientation (and vice versa), and, consequently, change their preferences regarding corporate tax policies. Therefore, we need more theorizing that allows us to understand how and why stakeholders shift their tax preferences. Another important weakness is that the model considers only one characteristic of stakeholder behaviour that is the degree to which stakeholders care about others. Consequently, future research is needed to broaden the model by linking stakeholders' tax preferences with further personality traits or with the characteristics of the institutional environment in which they are embedded.

# 7.

# FURTHER CONSIDERATIONS: A CITIZENSHIP PERSPECTIVE IN CORPORATE TAXATION

## 7.1 Introduction

This chapter briefly investigates how the responsibility to pay tax is shaped and understood within the different conceptions of corporate citizenship. Although this term was initially driven by practitioners, corporate citizenship has become a widely accepted theoretical framework in the business and society academic field (Scwartz and Carroll 2008; Dentchev 2009).

This framework appears as promising to provide some further considerations on the social responsibilities of business in the context of corporate taxation. In particular, this chapter proposes some preliminary reasoning towards understanding the responsibility to pay corporate taxes under different constructs of corporate citizenship. Additionally, the framework of corporate citizenship is used to address an additional question that still needs to be investigated, that is *where* companies are expected to pay their taxes. In the era of globalisation and digitalisation, the concept of community has assumed blurry boundaries, and, as a result that there is a need to define and discuss precisely to which community/ies a company belongs and to which community/ies it is expected to contribute.

## 7.2 Corporate citizenship: the *thick* and the *thin* conception

The emphasis of corporate citizenship is on "building bridges between companies and the communities in which they operate" (Dentchev 2009, p. 22). The ultimate aim of a theory of business citizenship is "to illuminate the structural and moral ties among business organizations, human beings, and social institutions, and to offer guidance on the rights and responsibilities accruing to each type of actor in the global socio-politico-economic environment" (Logsdon and Wood 2002, p. 160). As clearly argued by Moon et al. (2005, p. 432), speaking of corporations in terms of citizenship does not literally mean that corporations are citizens or have citizenship, "but that their substance or their actions can be understood as being in some meaningful way similar to that of citizens or citizenships". The term corporate citizenship can then be best understood as a "metaphor" (Wood and Logsdon 2008) in the analysis of business-society relations. Corporate citizenship has shaped a new understanding of the role of the corporation in society by defining corporate roles and duties which go beyond corporations' regular economic activities (Matten et al. 2003; Crane et al. 2004; Matten and Crane 2005; Moon et al. 2005; Crane et al. 2008). Several definitions and conceptualisations of corporate citizenships can be found in the literature, each characterised by a different understanding of what businesses are expected to *be* or to *do* to be considered good corporate citizens. Most of the conceptions of corporate citizenship can be characterised as a continuum ranging from two extreme clusters, that can be termed as the *thin (*or narrow) and the *thick* (or broad) conception of corporate citizenship (see Table 7.1). The main difference is that while under the *thin* conception, the corporation is seen as an economic citizen whose main purpose is to succeed and to follow its own self-interests within the legal boundaries, the *thick* approach conceives the status of corporate citizen not only as constituted by citizenship rights to be enjoyed, but also as characterised by the moral responsibility to go beyond immediate economic interests and to contribute to the common good. This distinction is clearly evident in the work of Aßländer and Curbach (2014; 2017) who distinguish the concept of corporate citizen as *bourgeois* and that of citizen as *citoyen*.

**Table 7.1** Thin vs. thick conception of corporate citizenship

| ***Thin*** **conception of corporate citizenship** | ***Thick*** **conception of corporate citizenship** |
|---|---|
| The minimalist view of corporate citizenship (Logsdon and Wood 2001; 2002) | The universal ethical principles perspective (Logsdon and Wood 2002) |
| The limited view of corporate citizenship (Matten et al 2003; Matten and Crane 2005) | The extended view of corporate citizenship (Matten et al. 2003; Matten and Crane 2005) |
| Corporate citizen as *bourgeois* (Aßländer and Curbach 2014; 2017) | Corporate citizen as *citoyen* (Aßländer and Curbach 2014; 2017) |

| | |
|---|---|
| Liberal minimalism and civic republicanism view of corporate citizenship (Moon et al. 2005). | Developmental democracy and deliberative democracy view of corporate citizenship (Moon et al. 2005). |
| Minimalist conception of corporate citizenship (Néron and Norman 2008) | Expansionist conception of corporate citizenship (Néron and Norman 2008) |

## 7.3 A corporate citizenship view of corporate tax payments

The thin and thick conception of corporate citizenship are applied in this study to investigate what responsibility to pay corporate taxes consists of and where companies are expected to contribute by paying their taxes in order to be considered good corporate citizens.

### *7.3.1 The responsibility to pay corporate tax under the thin conception of corporate citizenship*

Under the *thin* (or narrow) conception of corporate citizenship, corporations are seen as *bourgeois* citizens which have a relatively narrow range of obligations (Aßländer and Curbach 2014; 2017). Previous scholars have termed this approach as the '*minimalist'* (Logsdon and Wood 2001; 2002; Néron and Norman 2008) or the '*limited'* (Matten et al. 2003; Matten and Crane 2005) view of corporate citizenship. If corporations are seen as *bourgeois*, their citizenship status "is defined by an external governmental authority and reduced to private business purposes" (Aßländer and Curbach 2014, p. 551). The external sovereign warrants the rules of law and grants corporations the status of citizenship by national legislation. The law recognises that businesses have duties and rights of legal protection and compensation (e.g., own property, employ workers, enter into legal agreements, etc.).

The *thin* conception of corporate citizenship mainly portrays corporations as economic citizens whose main purpose is to succeed and to follow their own self-interests. Companies operate under a national government that defines the rules and standards in society and obedience to the law is the main criteria of citizenship that companies are expected to fulfil. Thus, as good corporate *bourgeois*, the corporation is expected to adhere to national and international laws, to respect commonly accepted international standards of behaviour and implement standards and procedures that ensure that all these regulations are observed in the company's day-to-day business. Additional engagement for the betterment of society takes the form of corporate philanthropy (e.g., charitable giving) and is viewed as a form of enlightened self-interest to improve corporate reputation or enlarge the firm's human capital base. In such a minimalistic conception, any citizenship behaviour on the part of the corporate *bourgeois* is limited to private (business) interests. As argued by Logsdon and Wood (2002, p. 162), corporations would only "claim those rights essential to the pursuit of self-interest and would fulfil only those obligations mandated by the convenience of having a collective entity to guarantee those rights".

Moving to the implications for corporate tax responsibility of such a *thin* conception of corporate citizenship, the first point to be noted is the payment of corporate tax is considered a fundamental criterion of good corporate citizenship. As argued by Néron and Norman (2008, p. 11), "Like an individual, a corporation that generally obeys the law, *pays its taxes*, and gives a small amount of its income (say, 1 percent of net profits) to charity can proclaim itself to be a good citizen without raising too many eyebrows" (*emphasis added*). Similarly, Moon et al. (2005) highlight how a minimalist perspective of corporate citizenship prizes obligations such as "obedience to the law and *paying tax*" (p. 436) (e*mphasis added*), while Logdson and Wood (2002) argue that corporations have to assume some of the fundamental duties of citizenship, "particularly the *payment of taxes* and political participation" (p. 174) (e*mphasis added*).

However, provided that under the *thin* approach good corporate citizenship is mainly understood as compliance with the legal regulation, also for the payment of corporate taxes compliance with the law should be enough for companies to be good corporate citizens. In other terms, from this perspective the payment of corporate tax is largely seen as a legal obligation. As a consequence, tax avoidance and aggressive tax planning may not be incompatible with the view of corporations as *bourgeois* citizens. Corporate citizens can claim the right to exploit loopholes and tax advantages built into the law for legally minimizing the tax burden and achieving their economic scopes. It is the task of governments to make the law as efficient as possible for taxing corporate profits. A second question to be addressed concerns the place where corporate *bourgeois* are expected to pay their taxes. Under the *thin* conception of corporate citizenship, companies are members of the jurisdiction of the state that grants them the citizenship status, and all the rights and benefits that come with it. Therefore, corporate taxes should be paid by companies to this government, as a payment in return for creating the corporation and the conditions for its operation on the market. As such, companies are accountable for contributing their fair share to help pay for the public goods and services (i.e., good infrastructure, a just legal system, and a well-educated workforce) they benefit from. In actual fact, corporations can actively choose which country or state they want to be 'citizen' of, or better where they want to pay taxes, by simply moving their headquarters. The result is a win-win situation for companies that quite often enjoy the benefits – in terms of infrastructures, well-educated workforce, general security, healthcare of their employees, etc. – provided by some countries where their main activities actually take place and contribute to the public expenditures of countries where "only" the headquarters are located. Indeed, even if a company headquartered in a tax haven may operate and have subsidiaries all around the world, a business group can use various techniques (e.g., transfer pricing or artificial location of intangible assets) to shift their profits to the company located in the tax haven, irrespective of the place where the real economic activity of the group is conducted. This is a mismatching even according to a *thin* interpretation of citizenship.

In any case, it is important to note that the *thin* conception of corporate citizenship may not exclude the possibility for companies to decide voluntarily to pay more taxes than the minimum amount required by law (or refrain from engaging in tax avoidance activities) in the event that they perceive the payment of tax as beneficial for their reputation and, then, as an instrumentally sound behaviour for their long-term economic purposes.

### *7.3.2 The responsibility to pay corporate tax under the thick conception of corporate citizenship*

On the contrary, under the thick conception of corporate citizenship, corporations are understood as *citoyen*-citizens (Aßländer and Curbach 2014; 2017). This approach has been termed as the '*extended*' (Matten et al. 2003; Matten and Crane 2005), '*ideal*' (Vidaver-Cohen and Altman 2000), or '*expansionist*' (Néron and Norman 2008) view of corporate citizenship.

The thick approach to corporate citizenship conceptualizes the status of corporate citizen not only as constituted by the rights to be enjoyed, but also by the duty to collaborate in order to go beyond immediate economic interests and to act in the interest of the community, taking on responsibilities for others and for the common good (Aßländer and Curbach 2014). Therefore, businesses are expected not only to generate profits, provide employment and follow the law but also collaborate “with other institutions in finding solutions to community problems, investing corporate resources in improving the community, and being willing to formalise these commitments with new organizational roles and procedures” (Vidaver-Cohen and Altman 2000, p. 148). In other words, the company is part of the community. Corporate-*citoyens* are expected to contribute to the common good in terms, for example, of societal welfare or environmental protection, but also as guarantors and administrators of social, civic and political citizenship rights (Matten and Crane, 2005). From this perspective, corporations are described as quasi-governmental actors which enter the arena of corporate citizenship “as powerful public actors which have a responsibility to respect those “real” citizens’ rights in society” (Matten et al. 2003, p. 115). Then, corporations are expected to compensate or correct for government failure in the protection of citizenship, taking over those functions “with regard to the protection, facilitation and enabling of citizens’ rights – formerly an expectation placed solely on the government” (Matten et al. 2003, p. 116). Furthermore, corporations are seen as intermediate actors in society bearing a subsidiary co-responsibility to help states to exercise public powers and to administer citizenship rights. Aßländer and Curbach (2017) introduce the principle of subsidiarity to regulate the task-sharing among corporations and governments. According to this principle, corporations have a moral obligation to accomplish those tasks, either related to their business activities or which concern their special competences, that they can accomplish more efficiently or with greater competencies than governments (Aßländer 2020).

Understanding companies as *citoyen*-citizens has significant implications for the responsibility to pay taxes. Here the corporate citizenship duties are directed at the community, rather than governments. As a result, the payment of tax is not conceived as a legal obligation, but rather as a contribution for sustaining the betterment of communities and facilitating the citizenship rights of their members. Consequently, to be good corporate citizens, companies are expected to go above and beyond a strictly legal interpretation of the law and ensure that the amount of tax corresponds to the intention of the legislator (i.e., the spirit of the law) to meet the needs of the community. Therefore, good corporate citizenship assigns to companies the moral duty to self-restrain from engaging in tax avoidance and to pay a fair share of tax to contribute to the well-being of the community. A second tax-related implication of the *thick* conception of corporate citizenship concerns the *quasi*-governmental role attached to companies in the event of governmental failure. Given the failure of national and international regulations to tax MNEs in an era of globalisation and digitalisation, the corporate *citoyen* should endeavour to establish commonly acceptable tax regulations, collaborating with national and international institutions and engaging in the development of business standards for responsible tax behaviour.

So far, it has been argued that companies have a duty to pay a fair share of tax to contribute to the well-being of the community. However, this line of reasoning is built into the assumption that taxes are paid to governments that are capable, and willing, to use tax revenues in ways that pursue the well-being of the community. Nevertheless, there may be cases in which governments are perceived as inefficient in the use of public resources or corrupted. In these circumstances, the application of the principles of subsidiarity, which require that societal tasks are accomplished at the level of companies when they are more efficient than governmental bodies, may legitimise (or even require) corporate-*citoyen* to avoid the payment of tax and to use tax savings to contribute directly to the well-being of the communities by investing in other pro-social activities. But this is an extreme decision that implies public opposition to the government, a sort of "boycott" that needs to be associated with a proper accountability policy.

Now it is addressed the problem of where companies are expected to pay their taxes under the thick conception of corporate citizenship. Vidaver-Cohen and Altman (2000, p. 148) argue that a company is expected "to proactively contribute to reinforcing the institutional infrastructures of each community in which *it maintains a presence*" (emphasis added). From this perspective, companies should pay their taxes in each community where they are present. This view echoes the internationally agreed principle that corporate profits should be taxed where companies have a significant economic presence, namely "where economic activities take place and value is created" (OECD BEPS 2015, p. 4). From this perspective, a company can be considered as a member of all the communities where it creates value and the payment of corporate taxes should be a function of the generated value in each jurisdiction. However, the concept of value creation is vague (Devereux and

Vella 2018) and, for instance, it could refer to "employee location, sales location, location of production capacity, location of management or location where capital is raised" (Morse 2018, p. 197).

A different framework for establishing the relevant community where a corporation should pay taxes is the one offered by the construct of 'ecological citizenship' (Crane et al. 2008; Shrivastava 2008). According to this perspective, corporations are thought of as embedded in an ecological environment and their membership of communities is defined by their ecological footprint. Social and environmental impacts and externalities then define the 'community' where a company operates. For instance, "an environmentally intensive corporation would have a larger footprint than a relatively benign one – and would have a more substantial set of obligations as a result" (Crane et al. 2008, p. 383). In other words, the 'ecological citizenship', with opportunities and obligations, "is concerned with the status, entitlements and processes of participation that citizens enjoy in relation to the natural environment" (Crane et al. 2008, p. 151). This deterritorialization of obligation suggests a rather different way of thinking about the community to whom companies are expected to pay their taxes. In order to fit the idea of 'ecological citizenship' to 'tax citizenship', the payment of tax may be understood as a way to deal with the negative externalities produced and the positive opportunities enjoyed by a firm. From this perspective, companies should pay their taxes according to where they have externalities (or negative impacts) and to where they benefit from a community's positive conditions. The responsibility to pay taxes should be placed where companies have a negative footprint, namely where there is a gap between the positive and negative impacts they create through their activities.

This relationship between the payment of tax and negative externalities is already evident in the environmental tax instruments currently used around the world to reduce the environmental damage caused by firms. These policy instruments intend to relate, at least partially, the amount of corporate income tax paid by a firm to its impact on the environment. Towards this end, governments have introduced environmentally motivated taxes (e.g., taxes on carbon dioxide emissions or other greenhouse gases) to 'punish' companies with a negative environmental impact, or environmentally motivated subsidies (e.g., feed-in tariffs on renewable energy generation or tax credits for environmentally relevant investment) to 'reward' companies that reduce, either directly or indirectly, the use of something that has a proven negative impact on the environment (OECD 2010).

## 7.4 Concluding remarks

In this chapter, the construct of corporate citizenship has been applied to contribute to the debate over what corporate tax responsibility consists of and where companies are expected to pay their taxes. More specifically, two main conceptions of corporate citizenship have been used, i.e., the *thin* and the *thick* approach, to investigate the compatibility between good corporate citizenship and corporate tax behaviour.

This discussion has revealed that, although the payment of corporate tax is widely regarded as a fundamental duty of citizens, the way in which companies are expected to behave in taxation is strictly dependent on how their citizenship is understood. Under the *thin* concept of corporate citizenship, the corporate-*bourgeois* is seen as an economic actor that pursues its self-interest, within the legal framework. Therefore, companies may be legitimized to minimize their tax burden, as long as they operate within the letter of the law. Conversely, the *thick* approach to corporate citizenship assigns the moral responsibility to contribute to the common good to the corporate-*citoyen*. As a consequence, companies should pay a fair share of taxes and restrain from tax avoidance and aggressive tax planning, even if they are technically legal.

Furthermore, the question as to where companies should pay their taxes has also been addressed. On the one hand, under the *thin* approach, companies owe their taxes to the government that grants them citizenship and the benefits attached to it (i.e., the jurisdiction of their headquarters). However, this approach is, at least partially, inconsistent since companies are able to shift their profits away from countries where they conduct their activities, and benefit from public goods and services, towards more favourable tax jurisdictions.

On the other hand, under the *thick* approach companies are thought to belong to all the communities where they operate and maintain a presence, in proportion to the value generated or consumed and to the negative impact they have in each community.

This study has revealed that the relationship between corporate tax responsibility and ethical and socially responsible conduct is strictly dependent on the way in which corporate citizenship is conceived and understood. Therefore, more research is needed to provide a better understanding of the responsibility to pay corporate tax as an obligation of corporate citizenship. For instance, future researchers may explore how managers and tax practitioners conceive good corporate citizenship in the context of corporate taxation. Furthermore, the suggestion to frame taxation in a similar way as ‘environmental citizenship’ opens avenues for further research. For example, finding appropriate tools for measuring companies’ negative and positive contributions to public value creation (or consumption) could be a challenging topic for future studies.

# 8.

# CONCLUSIONS

## 8.1 Introduction

This thesis is embedded in the B&S literature and deals with the issue of corporate taxation, that has only recently become relevant from the B&S perspective. Addressing corporate taxation as a B&S topic means investigating the role of corporate tax payments in developing a constructive and fruitful relationship between business and society. Indeed, what binds business and society scholars is "a central belief that businesses need to consider societal implications of their actions, respond to societal concerns, and play a positive role in society, more broadly" (Bapuji et al. 2020, p. 1967).

This project was mainly motivated by the author's personal concern about stories of big companies engaging in aggressive tax avoidance strategies to minimize their tax burden in the pursuit of profit maximization. These practices, although technically legal, have a dramatic impact on societies and local communities, reducing governments' financial resources that should be invested in providing public goods and services, and then in fulfilling basic and essential human rights. These harmful tax practices are facilitated by the inadequacy of the international tax framework and by the tax competition among states. Operating across several countries with their own legal framework and tax regulations, MNEs are provided with several opportunities to minimize their tax liabilities in a legal way. Therefore, it is evident that companies enjoy a large amount of discretion as to how to arrange their tax affairs and, consequently, how much tax they pay.

In short, this thesis moves from the premise that achieving a fair, credible and trustworthy tax system where all corporate and individual taxpayers contribute to the needs of society by paying a fair amount of tax, requires mutual collaboration between companies and the same taxpayers. While the role and the responsibility of governmental institutions are to create an effective legal framework which defines the obligation to pay tax, businesses are expected to radically change their attitude to, and their mode of thinking about, corporate taxation. Nevertheless, the assumption that tax is a cost to be minimized, and the associated culture of tax avoidance, is so deeply rooted in the business world that the transition towards responsible and ethical tax behaviour is not an easy task. Moving from such a reasoning, this thesis intends to contribute towards a more nuanced understanding of this alternative approach to corporate taxation, which conceives of corporate tax behaviour as a means to serve the needs and demands of broader societies and local communities, rather than solely the financial interests of shareholders.

Turning to the structure of the thesis, this research has investigated corporate taxation by drawing on three theoretical frameworks which dominate the B&S field: *business ethics*, *corporate social responsibility*, and *stakeholder theory*. Consequently, the research was organised around three pillars: a) corporate taxation and business ethics (chapter 2); b) corporate taxation and corporate social responsibility (chapter 3, chapter 4, and chapter 5); and c) corporate taxation and stakeholder theory (chapter 6). Further considerations were proposed in chapter 7, where responsibility to pay corporate tax was scrutinized under the framework of corporate citizenships. Each of these chapters has contributed to light a path towards a more responsible approach to tax obligations, which can be said to be truly respectful of the interests and needs of wider society.

The following sections discuss the main findings and contributions of this research, its practical implications, and some future research avenues as well.

## 8.2 Main conclusions and contributions

This section provides a brief summary of the main findings and contributions of this research, as discussed throughout the chapters. In particular, there are three main areas where this thesis makes an original contribution.

First, this work broadens our knowledge of the ethical responsibilities associated with corporate tax payments. In particular, this research has revealed that two opposing ethical views exist with regard to the role of corporate tax payments in the business and society relationships. The dominant perspective views the payment of tax as a contribution owed by companies for advancing the betterment of society and local communities. By paying a fair share of taxes companies enable governments to fulfil their responsibilities toward citizens by providing public goods and services. Therefore, the payment of corporate tax is conceived as a complement of a firm’s involvement in society. This attitude to

corporate taxation is supported by a large number of moral argumentations. Indeed, paying a fair share of corporate taxes and refraining from tax avoidance has been validated as the morally right course of action under *consequentialist* theories (which address right or wrong by emphasising the outcomes of an action), *deontological* theories (which stress that what makes a choice right is its conformity with a moral norm), and *virtue ethics* (which emphasises actors' virtues and moral character). In particular, companies failing to pay a fair share of tax by engaging in tax avoidance have been accused to run contrary to the interests of wider society, since this behaviour: leads to negative consequences for general society that are thought to outweigh the positive consequences for the firm (*Utilitarianism*); cannot be universalized without contradiction and without violating the principle of human dignity of people (*Kantianism*); violates basic human rights (*Ethics of Rights*), the principles for a just society (*Ethics of Justice*), and the implicit social contract between business and society (*Social Contract Theory*).
Nevertheless, an alternative way of thinking about the role of corporate tax payment in society has been depicted. This moral view lies on the assumption that the payment of taxes to support public function may not always be an ethical business conduct because of the presence of other rights or interests in contrast to those of the taxing government. First, there are the interests of shareholders, to whom managers are supposed to have a fiduciary duty to maximize profits, and then to minimize the tax burden within the legal framework. Second, there are the financial interests of stakeholders, to whom corporate tax avoidance may appear as beneficial, since tax savings may imply higher salaries for employees, higher return for investors, lower prices for consumers, etc. Third, there are the members of the communities where companies operate, whose interests and needs are supposed to be fulfilled by corporate tax payments. However, the payments of tax may not be the best way to maintain and support society when governments are corrupt or inefficient in their use of public resources. Therefore, from this perspective, in certain circumstances (e.g., when governments are inefficient or corrupt) companies may be morally justified in legally minimizing their tax burden when they are able to use tax savings in a way that is beneficial to their stakeholders and to the betterment of society, for instance by investing in infrastructure, research and development, social activities, and job creation. In these cases, companies act as 'substitutes' of governments in the sense that they 'replace' the State if governments fail to exercise their public functions, such as

with the provision of public goods and services. If some tax activities are not considered acceptable, it is the governments' task to change the legislation to make them illegal. However, this kind of tax behaviour may not always be accepted by stakeholders, since it raises some problems of democratic legitimacy. Indeed, companies' uses of resources that are deemed to be public (i.e., tax savings) may not be perceived as justified or credible since companies, unlike governments, are not elected in a democratic process. Consequently, companies are expected to commit to enhancing their accountability to stakeholders, to demonstrating the moral justifications of their tax strategies, as well as to documenting how tax savings have been used for the betterment of society.

This thesis has made several contributions towards enhancing our understanding of the significance and the relevance of CSR in the context of corporate taxation.

The starting point of this analysis was the examination of the motivations, and the justifications, for extending CSR thinking and practices in the area of corporate taxation. Towards this end, in chapter 3 a systematic literature review (SLR) was conducted for the main purpose of collecting, mapping, and categorising the arguments advanced in the literature for (or against) the application of CSR thinking and practice to corporate taxation. Such arguments were categorised following the widely accepted distinction between *legitimacy-seeking* (i.e., the institutional view of CSR), *instrumental* (i.e., the strategic view of CSR), and *moral* (i.e., the ethical view of CSR) arguments for CSR. First, the results suggest that the view of corporate taxation as a CSR issue has not yet been institutionalised in the corporate field. Empirical studies have documented that while some companies conceive corporate tax payments as a component of their CSR agenda, others do not see any inconsistences between engaging in tax avoidance strategies and, at the same time, conducting and communicating other social and environmental practices. The lack of attention from companies to corporate tax as a CSR issue may be attributed to the still scarce understanding of the business cases of such an approach. While consistent empirical evidence has revealed that the way in which companies approach their tax policies can affect their relationships with stakeholders, especially with customers and investors, considerable disagreement exists about the link between a firm's tax behaviour and its reputation. There is no clear trend indicating whether companies with more socially responsible tax practices benefit from a better reputation, as compared to firms engaging in tax avoidance. Finally, the SLR has provided solid normative arguments in favour of approaching tax as a CSR issue. The main justifications which capture the intrinsic value of this approach above any economic and financial considerations are grounded in the most influential normative ethical theories, as well as in normative stakeholder theory, corporate culture theory and in the sustainable development construct.

This thesis has elucidated how the appropriate configuration of CSR to deal with corporate taxation has evolved over the years. While under the implicit CSR approach the social responsibilities of businesses are defined by mandatory requirements as codified in the legal framework, under the explicit CSR model businesses are expected to self-regulate their behaviour and to voluntarily implement programmes and initiatives for the well-being of society. In order to address this question, in chapter 4 a content analysis of UK news media articles on corporate tax-related issues was conducted. The most remarkable result to emerge from this study is that in the last 20 years the area of corporate taxation has been characterised by the alternation of various versions of CSR, each characterised by a certain configuration in the extent to which the language of CSR was used to refer to corporate tax payments, the responsibility for tax scandals was attributed to governmental or corporate actors, and the mechanisms to regulate corporate tax behaviour were discussed at corporate- or collective-level. Furthermore, the results not only support the idea that corporate taxation was mainly considered as an area of implicit responsibilities, but they also show how this approach has gone through a process of hybridization, resulting in the incorporation of some typical elements of explicit CSR. This process of explicitization was mainly driven by the use of the language of CSR, especially among stakeholders, to refer to corporate tax behaviour and the increased blame put on companies for tax scandals. Nevertheless, the transition towards a more explicit approach to responsible corporate taxation is incomplete, due to two main constraining elements. First, the reluctance of companies to refer to their tax responsibilities above and beyond the duty to comply with tax laws and, second, the scarcity of initiatives developing mechanisms of self-regulation on taxation, as an alternative to the dominant, and often criticized, governmental regulation. In conclusion, this study has documented how critics and stakeholders have concentrated on blaming the way in which companies comply with tax laws and approach their tax responsibility, but, on the other hand, they have failed to develop and promote an alternative approach.

Indeed, although some tax-responsibility initiatives have arisen in the last few years, offering principles, standards, and guidelines for more explicit responsible tax behaviour, they have been given significantly less weight and importance than the reforms of the legal framework by governmental and intragovernmental institutions.

The examination of these tax responsibility initiatives was the focus of chapter 5, in order to enhance our understanding of what a more explicit approach to responsible corporate taxation looks like in practice. This analysis can assist researchers in their assessment of companies' social performance with particular regard to taxation. From reviewing the main principles, standards, and guidelines dedicated to responsible tax behaviour, it emerges that the core elements characterising this approach can be grouped into two main categories. On the one hand, there are the observable outcomes of responsible tax practices. The most obvious outcome is the payment of a fair share of tax in all the jurisdictions where companies operate in function of the value generated in each jurisdiction. Fairness is mainly conceived in terms of distributive fairness: the amount of tax paid by a company can be said to be 'fair' when it equates the share paid by taxpayers of similar economic standing. As a consequence, socially responsible companies should refrain from engaging in tax practices that, although legal, allow them to pay ridiculous amounts of tax, such as the use of tax havens and artificial transfer pricings arrangements. A second visible outcome relates to the development of internal tax policies and codes of conduct to handle tax responsibility. Finally, a third outcome relates to tax disclosure. Responsible companies are required to publish tax-related information to increase transparency, promote trust and credibility in the tax practices of organisations and in the tax systems, and enable stakeholders to make informed judgments about an organisation's tax positions. Thus, socially responsible companies should provide a meaningful and understandable report revealing their approach to tax and the specific amount of taxes paid in the different countries where they operate. On the other hand, responsible tax behaviour is characterised by some internal (or procedural) elements. A necessary condition for a company to be socially responsible when it comes to taxation is considering tax activities from a multi-stakeholder perspective, then engaging in an active and fluent dialogue with internal and external stakeholders. This involves not only establishing collaborative and honest relationships with tax authorities and governmental institutions, but also engaging in a fluent and open dialogue with all stakeholders affected by a firm's tax policies in order to collect, understand and take into account their points of view, concerns and expectations in relation to tax. A second element regards how companies comply with tax legislation. Many companies minimize their tax burden by engaging in creative and opportunistic compliance with the law. They comply with the letter of the law in a way that disregards the purpose of that legislation. However, mere compliance with the letter of the tax law is not in accord with the taxpayer's ethical responsibilities, and so cannot be considered a socially responsible behaviour. Therefore, companies should design their tax strategies by taking into account both the spirit and the letter of tax laws. Finally, responsible tax behaviour requires a shift in the functions, objectives, policies and working practices of a company's tax governance and tax management. Responsible companies should implement specific policies, practices, methods, and programmes to manage their tax responsibilities. Appropriate managerial policies and practices should be put in place to ensure that the tax policy is adequately implemented across the entire organisation. Moreover, responsible businesses are advised to adopt appropriate internal control frameworks or risk management systems with respect to tax, in order to identify, manage and monitor risks associated with the organisation's tax practices, including compliance and reputational risks.

A final contribution of this thesis lies in the development of a model which describes the role of stakeholders in tackling tax avoidance and facilitating the transition towards more responsible and ethical tax behaviour. The starting point of this model is the recognition that stakeholders may vary in their preferences over a firm's tax policies depending on the extent to which they care about others. While self-regarding stakeholders are likely to exhibit a preference for tax avoidance strategies that maximize the economic rewards for themselves, irrespective of the resulting treatment of other stakeholders, other-regarding stakeholders are likely to value firms that pay a fair share of taxes, even if they cannot rationally expect to yield any instrumental benefits, due to their genuine concern for the fair treatment of all stakeholders. Furthermore, the model depicts two mechanisms through which other-regarding stakeholders can induce companies to refrain from tax avoidance and shift towards the tax-as-contribution approach, by making companies perceive it: 1) as an instrumentally sound behaviour (when they face companies with instrumentalist stakeholder cultures), or 2) as the morally right thing to do (when they face companies with a moral culture). On the one hand, firms with instrumentalist stakeholder cultures consider stakeholder demands only if this is beneficial to their financial performance. Then, they will decide whether to serve the tax demands of self-regarding stakeholders (i.e., the *tax-as-cost* approach) or other-regarding stakeholders (i.e., the *tax-as-contribution* approach) according to the perceived consequences for their firm's financial performance. When firms are mostly surrounded by other-regarding stakeholders they are more likely to perceive the tax-as-contribution approach as an instrumentally sound behaviour. Indeed, when firms interact with other-regarding stakeholders, who evaluate news about a firm's involvement in tax avoidance as a signal of negative business conduct, and are willing to use their power to punish that firm, it is likely that corporations will perceive tax avoidance as a reputational risk which may reduce business opportunities with stakeholders and lead to financial losses that outweigh the tax savings. Conversely, firms with moral stakeholder cultures have a strong and genuine concern for treating all stakeholders fairly and with respect, regardless of economic temptations to disregard them. Moreover, firms with a moral culture will consider tax-related demands from other-regarding stakeholders as worthy of attention as long as they perceive the payment of a fair share of tax as a moral obligation to enhance stakeholders' well-being. When firms are mostly surrounded by other-regarding stakeholders, who raise firms' tax morale, it is likely that firms will perceive the tax-as-contribution as the morally right approach, compared to the tax-as-cost.

## 8.3 Practical implications

This research has several practical implications, both for companies and for policy makers.

Starting from the implications for companies, this research can assist managers and tax practitioners to gain a more nuanced understanding about what a responsible approach to corporate taxation is like. This research has emphasised how companies are under increasing pressure to exhibit more responsible tax practices. A growing number of stakeholder categories are concerned about firms' tax affairs and include tax responsibility-related criteria in their decisions regarding the firms to deal with. Solid normative arguments support the public debate surrounding firms' tax policies and stakeholders' concern about tax avoidance. This mobilisation on taxation can be seen as both a threat and an opportunity for companies. On the one hand, companies whose tax behaviour is not in line with the changing social demands risk losing their legitimacy to operate or deteriorating their stakeholder relationships. Conversely, this mobilisation represents an opportunity for companies because the transition towards more responsible tax behaviour may be good for their business, especially in the long-term. For instance, a responsible approach to tax can mitigate regulatory, financial, and reputational risks associated with questionable tax practices, and increase the opportunities to deal with stakeholders, leading to a sustained competitive advantage.

Offering a roadmap of ethical and responsible tax practices, this research provides a practical basis for companies willing to change their attitude towards taxation. In particular, it is recommended that companies integrate their codes of ethics with morally sound standards of conduct in taxation to ensure that their behaviour is consistent with the prevailing view of what the morally right course of action is in taxation. Additionally, companies are advised to enhance their tax transparency by disclosing tax related information in a comprehensive, clear, and understandable report in order to inform stakeholders about their approach to tax responsibility.

Furthermore, this research has some broader implications for the fight against tax avoidance. In the last decades, governmental and intergovernmental institutions (e.g., OECD and EU) have intensified their efforts to introduce more efficient tax-avoidance measures, both at national and international level. However, this thesis has revealed that, although there is an urgent need for effective legislation, the transition towards more responsible tax behaviour cannot be achieved without the contribution of all organisational stakeholders. In fact, the culture of corporate tax avoidance may only be definitively tackled if stakeholders abandon opportunistic behaviour, show a greater sense of solidarity with the communities where companies operate and use their power to push companies towards more responsible tax decisions. All stakeholders (e.g., consumers, investors, employees, media, NGOs, suppliers, etc.), and not only governments, need to raise their voice and play their part in tackling harmful tax policies. This has two important implication for policy makers. First, it underlines the need to intensify efforts to make stakeholders aware of the harmful impact of tax avoidance on wider society. For instance, more informational and awareness campaigns could be launched to educate stakeholders and boost their knowledge about the relationships between a firm’s tax policy and wider social issues. A second implication is the urgent need for policymakers to enhance corporate tax transparency through mandatory disclosure. Indeed, only if tax-related information is made public, will stakeholders be able to understand and evaluate how firms approach their tax responsibilities, how much tax they pay and how their tax affairs impact on society, and then use their power to punish tax conducts that are perceived as inappropriate and reward those that are perceived as appropriate.

## 8.4 Directions for future research

The author is confident that this thesis will serve as a basis for future studies on corporate taxation as a B&S issue. This research has thrown up many research questions, which have been discussed throughout the thesis as summarized here below, but are still in need of further investigation. In particular, additional research can produce important insights that would allow us to improve our knowledge of the antecedents and the outcomes of responsible tax behaviour, in order to contribute towards making this approach to corporate taxation the 'new normal'.

A first avenue for future research regards the determinants and the drivers of responsible tax behaviour. Future studies might focus on the organisational or institutional level.

First, a clear direction for future research involves investigating the motivations driving companies to extend CSR thinking and practices to their tax behaviour. Broadening our knowledge of the factors urging, or constraining, companies to include corporate taxation in their CSR agenda, may have important implications for guiding stakeholder mobilisation to promote such an approach. Consequently, qualitative research may explore how companies perceive the interplay between CSR and corporate taxation as well as the ethical responsibilities associated with the payment of corporate tax. Additionally, longitudinal studies could contribute to a better understanding of the conditions under which companies are more (or less) likely to frame corporate taxation as a CSR issue. A question that remains unanswered concerns the relationship between the payment of corporate tax and corporate social performance. Future studies on this topic could verify which determinants of the Environmental Social and Governance (ESG) rating affect a firm's level of corporate tax payments, to establish whether companies view corporate taxation as a complement (or a substitute) to their social or environmental involvement, or as a matter of corporate governance.

Furthermore, it should be verified whether the choice to become B Corporations affects a firm's attitude towards taxation, in terms of tax transparency or level of tax avoidance. Finally, future works should explore the relationship between corporate charitable giving and the payment of corporate taxes. This is an important question to be answered, to elucidate whether companies consider philanthropic activities as an additional contribution that integrates the payment of a fair share of taxes, or whether companies consider charitable giving as a substitute for the payment of taxes. This relationship may vary according to the extent to which firms trust in governments, exhibit preferences over a direct contribution to the social good, or give importance to the reputational capital.

Moving to an institutional level, different parts of this thesis have discussed how numerous categories of stakeholders (e.g., NGOs, media, investors, customers) are increasingly concerned about firms' tax affairs. However, there is a general lack of research establishing whether and how this stakeholder pressure can drive a change in the companies' attitude towards taxation. For instance, future research may elucidate the extent to which the characteristics and the tax preferences of a firm's stakeholder landscape can determine how that firm approaches its tax responsibilities. With particular regard to the media attention on tax issues, further research is needed to assess whether negative media exposure affects firms' tax behaviour. Furthermore, the last few years have witnessed the emergence of various multi-stakeholder tax responsibility initiatives aimed at promoting a transition towards a more explicit approach to responsible corporate taxation. Anecdotal evidence reveals that some big companies are leading the way in making corporate tax practices an essential component of a firm's CSR agenda. For instance, a group of MNEs (including Allianz, BHP, A.P. Moller - Maersk, Natura Cosméticos, Repsol, Royal Dutch Shell Plc, Safaricom, Unilever and Vodafone Group Plc) have worked to contribute to developing the B Team's framework for leadership on responsible tax, while others have agreed to contribute to the CSR Europe's project on responsible tax behaviour (i.e., BBVA, Iberdrola, Naspers, Unilever and Vodafone Group Plc.). However, empirical studies investigating the implementation of these initiatives among companies and the impacts on a firm's tax behaviour are still lacking. Therefore, future studies may investigate how companies have responded to these initiatives and whether the principles and standards of responsible taxation have actually contributed to facilitating a change in firms' tax behaviour. For instance, studies may investigate whether and how these initiatives have contributed to enhancing the quality and the quantity of tax transparency. Additionally, it would be useful to compare the different impacts of mandatory and voluntary tax disclosure on a firm's tax behaviour.

A second research avenue for future studies regards the outcomes and the implications of responsible tax behaviour. First, future studies are required to make an empirical evaluation of the implications of responsible tax practices for financial performance. So far, corporate taxation has mainly been investigated as a negative CSR issue, i.e., as a matter of corporate social *irresponsibility*, and little is known about whether and how firms may benefit from exhibiting a more responsible tax behaviour. This is a vital question to be clarified in order to encourage companies to move from tax avoidance and aggressive tax planning to a new way of thinking of and approaching the payment of corporate tax. In order to address this question, future studies might verify whether more responsible tax firms benefit from reputational gain or from improved relationships with stakeholders, such as consumers, employees or investors. However, preliminary to these studies, it is fundamental to develop an appropriate way to operationalise and measure responsible tax behaviour. Following prior studies, the measurement strategies might include a tax disclosure index (Hardeck and Kirn 2016) or semi-structured interviews to assess a corporate respondent's attitude to taxation (De la Cuesta-González and Pardo 2019). Furthermore, research is also needed to determine whether a more explicit CSR approach to responsible corporate taxation is effective at tackling tax avoidance. Consequently, future studies might explore whether companies exhibiting a more responsible tax behaviour (e.g., companies that are more transparent on taxation) are more or less likely to engage in tax avoidance than companies that are silent on their tax affairs.

## 8.5 Final remarks

This thesis comes at a time when interest in and concern over the impact of corporate tax policies on society is accelerating rapidly. The aggressive schemes and strategies with which large companies minimize their tax burden and pay ridiculous amounts of taxes at the expense of citizens and society at large are no longer sustainable.

Broadly speaking, our world needs a radical change of behaviour on the part of companies. Businesses must commit to contributing to the betterment of society and the common good, and this contribution must necessarily begin with responsible tax behaviour. Corporate tax payments are vital for maintaining and supporting the local communities where companies operate, especially in developing countries. Without appropriate financial resources, governments are not able to provide essential public goods and services or fulfil fundamental human rights. Furthermore, the Business Roundtable (BRT) Statement on the Purpose of Corporation, in which signatory companies commit, among other things, to "supporting the communities in which we work" (BRT 2019), should contribute towards rethinking the role of corporate tax payments.

The responsibility to sustain governments and local communities by paying a fair share of corporate tax is made even more pressing given the contingent situation we are experiencing, in which governments' coffers all around the world are in dire need of financial resources and, consequently, of corporate tax revenues. In 2020, the world has been shaken suddenly and dramatically by the COVID-19 outbreak. This pandemic has brought considerable human suffering and has generated one of the major economic and financial shocks of the century (OECD 2020c). This crisis has created major disruptions and huge challenges for society, individuals, and business behaviour. Although organisations can contribute directly by responding to this crisis (Bapuji et al. 2020; OECD 2020d), the COVID-19 "has re-centred governments as the key actors in tackling grand challenges" (Crane and Matten 2019, p. 3). States have reassumed a central and direct role in social welfare, through the provision of subsidies for individuals and companies and the redistribution of wealth. Indeed, governments all around the world have taken decisive actions to contain and mitigate the spread of COVID-19 and to limit the adverse impact on the economy. Well-targeted governmental policies and measures have been implemented to help businesses stay afloat, support households and help preserve employment. In this context, tax has a key role to play by contributing towards the cost of the crisis (OECD 2020e, p. 6), and companies are also expected to do their part to ensure that governmental measures can be adequately financed.

Furthermore, the responsibility for paying a fair share of taxes in every jurisdiction where companies operate has significant implications for the achievement of the 2030 Sustainable Developments Goals. The adoption of the 2030 Agenda for Sustainable Development brought a commitment from all countries to a set of universal, integrated and transformational goals and targets "to shift the world on to a sustainable and resilient path" (UN 2015, p. 3). However, translating the vision of the SDGs into concrete actions is a major challenge that cannot be achieved without adequate financial resources. Moreover, companies are expected to play their part towards the achievement of SDGs, and commitment to responsible tax behaviour can be decisive in bridging the gap towards funding such goals.

Having concluded his PhD project, the author hopes that his research will broaden the debate about the role of corporate tax payments in society and the ethical and social dimensions of corporate tax responsibility. In particular, the hope is to increase the awareness that corporate tax behaviour can play a major role in influencing the future of each and every one of us. The discretion granted to companies over tax matters has reached unprecedented levels and it is destined to increase due to the growing globalisation and digitalisation of the business models. Simultaneously, governments will become more and more reliant upon corporate tax revenues, especially following the COVID-19 crisis. Therefore, only if companies use their power responsibly and approach their tax responsibility in a way that is consistent with the needs and demands of wider society, will it be possible to build a prosperous, safe, and sustainable future.

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# APPENDIX A

**Quantitative studies investigating the relationship between CSR performance and corporate tax avoidance**

| Authors/Year | Location | Period | Operationalisation of CSR performance | Operationalisation of tax avoidance | Main findings |
|---|---|---|---|---|---|
| Negative relationship between CSR performance and tax avoidance | | | | | |
| Lanis and Richardson (2012) | Australia | 2008-2009 | CSR disclosure index | Effective tax rate | The higher the level of CSR disclosure of a corporation, the lower the level of corporate tax aggressiveness. The social investment commitment, and corporate and CSR strategy items of a corporation are significant components of CSR activities that have a negative effect on tax aggressiveness |
| Hoi et al. (2013) | USA | 2003-2009 | CSR rating from the KLD database | Tax-sheltering activity; permanent book-tax differences; discretionary book-tax differences; cash effective tax rate. | Firms with more irresponsible CSR activities have a higher probability of engaging in aggressive tax avoidance practices. |
| Porter and Miles (2013) | USA | 2000-2009 | CSR index from the Corporate Reputation and Social Responsibility Rankings and KLD database | Cash taxes paid as a percent of revenue | Firms with CSR longevity pay significantly more taxes. |

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| Laguir et al. (2015) | France | 2003-2011 | CSR rating from Vigeo database | Effective tax rate. Cash effective tax rate | The greater the activity in the social dimension of CSR, the lower the level of corporate tax aggressiveness will be. |
| Lanis and Richardson (2015) | USA | 2003-2009 | CSR rating from the KLD database | Involvement in a tax dispute; book-tax differences | More socially responsible firms are less likely to pursue tax avoidance. CSR categories community relations and diversity represent important elements of CSR performance that lower tax avoidance. |
| Muller and Kolk (2015) | India | 2000-2002 | Dow Jones Sustainability Index | Effective tax rate | Subsidiaries of MNEs known for CSR pay higher effective tax rates than subsidiaries of MNEs less known for CSR. |
| Lanis and Richardson (2018) | USA | 2003-2009 | CSR rating from the KLD database | Tax sheltering activity; discretionary book-tax differences; cash effective tax rate | Negative relationship between CSR performance and tax aggressiveness. The relationship is magnified by the presence of outside directors on the board. |
| Zeng (2016) | Canada | 2005-2009 | CSR rating from Corporate Knights Research Group | Five-year cash tax rate; annual cash effective tax rate. | The higher the CSR ranking of a firm, the less likely a firm is to engage in tax aggressiveness. |
| Huang et al. (2017) | USA | 1991-2014 | CSR rating from MSCI database | Corporate inversion | Firms with higher CSR performance are less likely to expatriate compared to firms with lower CSR performance. |
| Jones et al. (2017) | Cross-countries | 2014 | CSR rating from the EIRIS database | Effective tax rate | The negative relationship between CSR levels and tax aggressiveness is stronger on the Asian sub-sample, but is largely insignificant on the North American, European and UK sub-samples. |

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| Kim and Im (2017) | Korea | 2005-2007 | CSR rating from the Korean Economic Justice Institute (KEJI). | Book-tax differences | Firms involved in CSR activities are on average passive in tax avoidance |
| Park (2017) | Korea | 2004-2009 | CSR rating from the Korean Economic Justice Institute (KEJI). | Book-tax differences | Firms with higher CSR activities are less likely to avoid taxes. |
| Mao and Wu (2019) | China | 2009-2016 | CSR scores from the CSR research center at the Chinese Academy of Social Sciences (CASS-CSR). | Book-tax differences and effective tax rate | CSR performance score has a significant positive effect on the level of corporate tax burden. |
| Mohanadas et al. (2019) | Malaysia | 2010-2012 | Level of CSR disclosure in the annual corporate reports | Effective tax rate | Community-related CSR performance is negatively related to tax aggressiveness. |
| Salhi et al. (2019) | UK and France | 2005-2017 | CSR ratings from the Thomson Reuters ASSET4 database | Effective tax rate | CSR fully mediates the negative relationship between corporate governance and tax avoidance. |
| Positive relationship between CSR performance and tax avoidance | | | | | |
| Huseynov and Klamm (2012) | USA | 2000-2008 | CSR ratings from the KLD database. | Effective tax rate. Cash Effective tax rate | Firms that reduce tax payments may have strong CSR performance in terms of governance, community and diversity |

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| Lanis and Richardson (2013) | Australia | 2001-2006 | Level of CSR disclosure in the annual corporate reports | Issue of an amended tax assessment by the tax authorities | Firms for which the tax authorities had issued an amended tax assessment by reason of tax aggressive activities show a higher level of CSR disclosure in their annual reports. |
| Laguir et al. (2015) | France | 2003-2011 | CSR rating from the Vigeo database | Effective tax rate. Cash effective tax rate | High activity in the economic dimension of CSR is associated with a high level of tax aggressiveness. |
| Col and Patel (2019) | USA | 1995-2012 | CSR ratings from the KLD database | Use of offshore tax haven affiliates | Firms' CSR ratings increase substantially in the two years after they first open tax haven affiliates. |
| Davis et al. (2016) | USA | 2006-2011 | CSR ratings from the KLD database | Five-years cash effective tax rate. Tax lobbying expenditures | CSR rating is positively related to tax avoidance. |
| Xu and Zeng (2016) | China | 2006-2010 | CSR scores from the CSR research center at the Chinese Academy of Social Sciences (CASS-CSR) | Effective tax rate | Negative association between ETR and environmental score. |
| Preuß and Preuß (2017) | Europe | 2010-2016 | CSR ratings from Thomson Reuters | Five-year cash and effective tax rates | CSR is negatively associated with corporate tax payments. |
| Pratiwi and Djakman (2017) | Indonesia | 2013-2015 | Level of CSR disclosure in the annual corporate reports | Effective tax rate | Firms that actively conduct tax avoidance, have a higher level of CSR disclosure |

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| Gulzar et al. (2018) | China | 2009-2015 | CSR ratings from Rankins CSR Ratings | Book Tax Difference; Current effective tax rate; Cash effective tax rate | CSR is negatively associated with corporate tax payments. |
| Fallan and Fallan (2019) | Norway | 2009-2012 | Corporate environmental disclosure index | Cash effective tax rate | Positive relationship between corporate tax aggressive behaviour and the degree of voluntary environmental disclosure. |
| Fourati et al. (2019) | EU | 2002-2015 | CSR ratings from the Thomson Reuters ASSET4 database. | Effective tax rate. Book-tax differences | Socially responsible firms are more involved in tax-avoidance activities than the less responsible ones. |
| Mao (2019) | China | 2009-2016 | CSR rating from the CSR Blue Book | Book Tax Difference; Effective tax rate | CSR scores are positively related to tax avoidance. |
| Mohanadas et al. (2019) | Malaysia | 2010-2012 | Level of CSR disclosure in the annual corporate reports | Effective tax rate | Workplace-related CSR is positively related to tax aggressiveness. |
| Gandullia and Piserà (2019) | EU | 2006-2016 | CSR ratings from the Thomson Reuters ASSET4 database. | Effective tax rate | Effective tax rates are negatively correlated in a statistically significant way with CSR ratings. |
| Abdelfattah and Aboud | Egypt | 2007-2016 | ESG score based on the ESG ratings generated by Standard and Poor's (S&P) in | Effective tax rate | A tax avoiding firm tends to increase its ESG disclosure. |

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| | | | collaboration with the Egyptian Stock Exchange and credit ratings agency CRISIL. | | |
| Moderated relationship between CSR and tax avoidance | | | | | |
| Landry et al. (2013) | Canada | 2004-2008 | CSR ratings from the Canadian Social Investment Database (CSID) | Effective tax rate | The relationship between CSR and tax aggressiveness is moderated by family ownership. |
| Watson (2015) | USA | 2003-2009 | CSR rating from the KLD database | Cash effective tax rate | The relationship between CSR and tax avoidance is moderated by pre-tax earnings performance. |
| Lin et al. (2017) | China | 2008-2012 | CSR index scores from the Rankins CSR Ratings (RKS) | Effective tax rate | The relationship between CSR reporting and corporate tax payments is moderated by the strength of the institutional environments in which firms operate. |
| Liu and Lee (2019) | China | 2010-2014 | CSR index scores from the Rankins CSR Ratings (RKS) | Book tax differences | State-owned companies with better CSR performance are less likely to avoid taxes, but non-state companies with better CSR performance are more likely to avoid taxes. |
| Zeng (2019a) | Cross-countries | 2011-2015 | CSR rating from Datastream | Difference between the statutory rate and the annual ETR. Book-tax difference. Residual book-tax difference | The relationship between CSR and tax avoidance varies with a country's legal and institutional environment. |

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| López-González et al. (2019) | Cross-countries | 2006-2014 | CSR rating from the EIRIS database | Effective tax rate; cash effective tax rate. | The relationship between CSR and tax aggressiveness is moderated by family ownership. |
| Alsaadi (2020) | Cross-countries | 2008-2016 | CSR ratings from the Thomson Reuters ASSET4 database. | Effective tax rate | Firms located in low financial-tax conformity jurisdictions are more likely to undertake CSR to hedge against the potential consequences of aggressive tax avoidance practices as compared to firms domiciled in high financial-tax conformity jurisdictions. |
| Vacca et al. (2020) | Italy | 2011-2018 | CSR disclosure in adherence to GRI standards | Effective tax rate | The relationship between tax aggressiveness and CSR disclosures is moderated by gender diversity on corporate boards. |
| Ortas and Gallego-Álvarez (2020) | Cross-countries | 2002-2014 | CSR ratings from the Thomson Reuters ASSET4 database. | Effective tax rate | The higher the companies' commitment to social, environmental and governance issues, the lower their likelihood of engaging in tax aggressiveness. National cultural values and beliefs moderate the link between disaggregated measures of CSR and firms' tax aggressiveness levels. |

## APPENDIX B

### Selected list of reports by tax justice NGOs

| Organisation | Year | Title | Content | Tactic |
|---|---|---|---|---|
| ChristianAid | 2008 | Death and taxes: the true toll of tax dodging | This report exposes the scandal of a global taxation system that allows transnational corporations using their enormous power to duck their responsibilities and avoid the attentions of the tax man, while condemning the poorest to stunted development, even premature death. | Raise public awareness |
| ChristianAid | 2009 | The missing millions | The report exposes the scandals of multinationals' tax dodging practices in developing countries, revealing that they are supported by the Scottish government. | Raise public awareness |
| Open Society Institute of Southern Africa et al. | 2009 | Breaking the Curse: How Transparent Taxation and Fair Taxes can Turn Africa's Mineral Wealth into Development | The research focuses on mining taxation and transparency in seven African countries (Ghana, Tanzania, Sierra Leone, Zambia, Malawi, South Africa, and the Democratic Republic of Congo) revealing how governmental tax subsidies together with tax avoidance practices by mining companies have contributed towards robbing African governments of millions of dollars of foregone tax revenue from the mining industry. | Raise public awareness |
| ActionAid | 2011 | Addicted to Tax Havens: The Secret Life of the FTSE 100 | Research on the use of tax havens by FTSE 100 companies, revealing that 98 of the FTSE 100 companies declare at least one subsidiary, joint venture or associated company located in a tax haven. | Raise public awareness |
| ActionAid, Fairfood and Fair Pensions | 2011 | Tax Responsibility - The Business Case for Making | The report presents the business case for tax responsibility (i.e., reputation risk and financial risk) and suggests an action plan for businesses towards responsible tax planning including elements for inclusion in a company tax | Appeal to firms |

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| | | Tax a Corporate Responsibility Issue | policy; development of an oversight mechanism; transparency; and an industry code of conduct. | |
| ChristianAid | 2011 | Tax and Sustainability: a Framework for Business and Socially Responsible Investors | The report discusses the business case for framing tax as a corporate responsibility issue (i.e., reputational risk, regime risk and cash flow risk) and presents some principles of responsible corporate tax behaviour, with particular regard to policy, management and reporting. | Appeal to firms |
| ActionAid | 2012 | Calling Time - Why SABMiller Should Stop Dodging Taxes in Africa | Research that unpacks and exposes tax dodging techniques used by SABMiller, the world's second largest beer company, to siphon profits out of Africa and India, costing governments as much as $20 million per year. | Raise public awareness |
| Oxfam IBIS and Global CSR | 2012 | A brief on tax and corporate responsibility | The report presents some draft principles to help companies behave responsibly in the area of tax payments, related to substance, structure, power, transparency, accountability, financial reporting and governance. | Appeal to firms |
| ActionAid | 2013 | Tax Responsibility - An Investor Guide | The report provides investors with a set of indicators and benchmarks to be used to enquire about a company's tax profile, as well as a list of possible questions that they can ask to determine a company's tax risk and performance. | Appeal to firms |
| ActionAid | 2013 | Give us a break: How big companies are getting tax-free deals | Research on the tax incentives (i.e., a special tax deal to encourage a company to invest) given to corporations in developing countries. The result is the estimate that over US$138 billion is probably given away by governments every year, just in statutory corporate income tax exemptions. | Raise public awareness |

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| ActionAid | 2013 | Sweet nothings: the human cost of a British sugar giant avoiding taxes in southern Africa | Investigation on corporate tax avoidance and unfair incentives to multinationals in Zambia. The research estimates that a combination of tax breaks and tax avoidance by Zambia Sugar, a subsidiary of the UK-based multinational Associated British Foods (ABF), costed the Zambian government US$27 million in the period 2007-2012. | Raise public awareness |
| ChristianAid | 2013 | Multinational corporations and the profit-shifting lure of tax havens | This report contributes to the debate on how MNEs' tax practices can hamper development efforts by investigating the link between tax evasion and avoidance, profit shifting and tax havens. An analysis of more than 1,500 MNEs operating in India shows that in 2010 those MNEs with links to tax havens paid 30.3% less in taxes per unit of profit than MNEs with no such links. | Raise public awareness |
| ChristianAid and Enough Food For Everyone | 2013 | Who pays the price? Hunger: the hidden cost of tax injustice | The report provides evidence of how an end to MNEs' tax avoidance practices, coupled with appropriate development policies, could make major progress towards eradicating world hunger. | Raise public awareness |
| ActionAid | 2013 | How Tax Havens Plunder the Poor | The report discusses the impact of tax havens on the poorest countries in the world. | Raise public awareness |
| Oxfam | 2014 | Business Among Friends. Why corporate tax dodgers are not yet losing sleep over global tax reform | The report shows how big MNEs' tax strategies constrain developing countries' ability to tackle inequality and offers recommendations to overhaul international corporate tax rules. | Raise public awareness |
| Oxfam IBIS | 2014 | Tax - A Corporate Responsibility Priority | Mapping of the tax practices of the largest Danish investors and companies. The research documents the lack of transparency and publicly available information on corporate tax policies and practices. | Raise public awareness |

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| Tax Justice Network and Christian Aid | 2014 | Africa rising? Inequalities and the essential role of fair taxation | The report investigates the issue of income inequality in 8 sub-Saharan African countries (Ghana, Kenya, Malawi, Nigeria, Sierra Leone, South Africa, Zambia and Zimbabwe), by looking at national taxation systems, international taxation issues and MNEs' tax practices. | Raise public awareness |
| ActionAid | 2015 | An extractive affair | Investigation of the tax avoidance techniques of the Australian mining company Paladin. The research reveals that Malawi, the poorest country in the world, has lost out on US$43 million in revenue in the period 2009-2014 from Paladin. | Raise public awareness |
| ActionAid | 2015 | Standard Chartered – Publicised tax avoidance strategy | Research on the publication of an article by the UK FTSE-100 listed bank Standard Chartered that presents a tax strategy which allows multinationals to avoid paying potentially hundreds of millions of dollars in some of the poorest countries in the world. | Raise public awareness |
| ActionAid | 2015 | Levelling UP: Ensuring a Fairer Share of Corporate Tax for Developing Countries | Recommendations to governments of developing and developed to countries to review international corporate tax rules to tackle tax avoidance (e.g., review tax incentives for investors, review and renegotiate bilateral tax treaties, support the creation of an international body for tax cooperation, require multinationals to publish country-by-country reports, work towards a global agreement to curb corporate tax competition). | Lobby governments |
| ActionAid | 2015 | Responsible Tax Practices by Companies | Review of 45 sources of recommendations for responsible tax practices by MNEs published since 2005 by a wide range of actors: MNEs, business federations and organisations, non-governmental organisations (NGOs), corporate responsibility specialists, investor groups, tax advisers, legal professional bodies, governments, courts, intergovernmental organisations, and multi-stakeholder initiatives. | Appeal to firms |
| ActionAid, Christian Aid, and Oxfam | 2015 | Getting to Good - Towards Responsible | The report sets out some propositions and recommendations for companies within eight key issue areas of responsible tax behaviour: 1) tax planning practices; 2) public transparency and reporting; 3) non-public disclosure; 4) relationships with tax authorities; 5) tax function management and | Appeal to firms |

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| | | Corporate Tax Behavior | governance; 6) impact evaluation of tax policy and practice; 7) tax lobbying/advocacy; and 8) tax incentives. | |
| Oxfam | 2015 | Pulling the Plug. How to stop corporate tax dodging in Europe and beyond | The report presents some recommendations to the European Union for tax reforms to fight corporate tax avoidance (e.g., the adoption of a tax transparency framework for large companies, increased cooperation and support of developing countries). | Lobby governments |
| Eurodad | 2015 | Fifty shades of tax dodging. The EU´s role in supporting an unjust global tax system | This report scrutinises the role of the EU in the global tax crisis, analyses developments and suggests concrete solutions. | Lobby governments |
| ActionAid | 2016 | Making tax work for women's rights | The report shows and discusses the link between corporate taxation and women's rights in developing countries. | Raise public awareness |
| ActionAid and Tax Justice Network Africa | 2016 | Still racing toward the bottom? Corporate tax incentives in East Africa | Investigation of the impact of tax incentives given to MNEs in four East African countries (Tanzania, Kenya, Rwanda and Uganda). | Raise public awareness |
| Oxfam | 2016 | The IFC and Tax Havens. The need to support more responsible corporate tax behaviour | Research on the use of tax havens revealing that 51 of the 68 companies that were lent money by the World Bank's private lending arm (i.e., the International Finance Corporation) in 2015 to finance investments in sub-Saharan Africa, use tax havens. | Raise public awareness |

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| Oxfam | 2016 | Tax Battles. The dangerous global race to the bottom on corporate tax | Research that exposes the 15 world's worst corporate tax havens and identifies actions for governments to put an end to the race to the bottom. | Lobby governments |
| Tax Justice Network | 2016 | Turning the spotlight on #GoogleTax: What would they have paid under a fairer tax system? | This briefing sheds light into Google's tax affairs to reveal that, by different reasonable and fair benchmarks, Google should have paid every single year the amount it settled on paying for the last ten years in a deal with the UK tax authority in 2014. | Raise public awareness |
| Oxfam | 2017 | Making Tax Vanish. How the practices of consumer goods MNC RB show that the international tax system is broken | Research focused on the tax avoidance practices of RB, a UK-based consumer goods FTSE 100 company. Oxfam estimates that RB reduced its global tax bills by around £200m over a period of three years. Moreover, some actions that governments and MNCs can take to fix the broken tax system are identified. | Raise public awareness<br>Lobby governments<br>Appeal to firms |
| Oxfam | 2017 | Opening the vaults: the use of tax havens by Europe's biggest bank | Research on the use of tax havens by European banks. The analysis estimates that the 20 biggest European banks register around one in every four euros of their profits in tax havens, an estimated total of €25bn in 2015. | Raise public awareness |
| Oxfam | 2017 | Stopping the scandals. Five ways governments can end tax avoidance | This briefing note lists five actions governments can take to tackle corporate tax avoidance (i.e., end tax havens, end corporate tax secrecy, end tax secrecy for the super-rich, re-balance tax deals with developing countries, support a new generation of tax reforms). | Lobby governments |
| Eurodad | 2017 | Tax games: the race to the bottom | The report presents a detailed analysis of 17 EU member states and Norway revealing that 12 governments have either just cut their corporate tax rate, | Lobby governments |

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| | | | or are planning to do so in the near future, resulting in a race to the bottom which will see average global corporate tax rates hit zero by 2052. | |
| Oxfam | 2018 | Prescription for Poverty. Drug companies as tax dodgers, price gougers, and influence peddlers | Investigation of tax avoidance strategies of four major pharmaceutical firms (Abbott, Johnson & Johnson, Merck, and Pfizer). Analyses reveal that they appear to deprive developing countries of more than $100 million every year. | Raise public awareness |
| ActionAid | 2019 | Collect more - and more fairly? | The report offers a critical perspective and a set of recommendations to the European Commission’s support for Domestic Resource Mobilization in developing countries. | Lobby governments |
| Oxfam | 2019 | British-Based Corporations and the Tax 'Race to the Bottom' | Research on revenues, profits and tax payments of the largest companies listed on the London Stock Exchange over a 20-year period from 1998 to 2017 to see whether competitive tax-cutting by countries, tax incentives and possible opportunities to avoid tax, have lowered the actual rates at which these huge corporations pay tax around the world. | Raise public awareness |
| Oxfam | 2019 | Off the Hook. How the EU is about to whitewash the world's worst tax havens | The report offers a critical perspective and a set of recommendations related to the EU blacklist of tax havens. | Lobby governments |
| Tax Justice Network | 2020 | The State of Tax Justice 2020: Tax Justice in the time of COVID-19 | The report presents comprehensive estimates of the huge sums of tax each country in the world loses every year to corporate and private tax abuse – and what this means in terms of countries’ health spending. | Raise public awareness |