Degree Project

Master’s degree

How companies respond to Media Criticism for Tax Avoidance Strategies

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Abstract

Purpose: The aim of this paper is to examine how companies which are subject to criticism for their tax avoidance strategies respond to such criticism by analyzing tax related disclosures in organizations’ annual reports as well as corporate social responsibility reports.

Design/Methodology/Approach: A qualitative research design was applied using content analysis on annual and corporate social responsibility reports which were collected from the companies’ archives. The reports were selected in terms of the time that the tax avoidance scandal was exposed on media. Therefore, a three-year timeframe of reports was studied, one year before the scandal, the year of the scandal and one year after. The interpretation of the results was done using legitimacy theory.

Findings: Three different disclosure strategies have been identified, namely accepting, challenging and influential strategies, which companies use in different ways. A variation of responses to media criticism among the companies have been observed which indicates that there is not a framework of answering to media criticism for tax avoidance strategies. The study also illustrates that there is lack of disclosure strategies within the corporate social responsibility reports.

Limitations/Implications: The data were collected only from annual reports and CSR reports; other corporate releases were not taken into consideration. The selected companies include one European company and five U.S. companies.

Originality/Value: The paper contributes to the understanding on how multinationals who are key actors use different response strategies for aggressive tax management as well as provides important information to tax administrators. Furthermore, a theoretical basis on linking corporate response strategies to media criticism based on a legitimacy framework is provided, which could facilitate managers in dealing with the public criticism when their legitimacy is threatened.

Keywords: Corporate Tax Avoidance, Tax Disclosure, Media Criticism, Legitimacy Strategies
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List of Abbreviations

CSR      Corporate Social Responsibility
FAS      Financial Accounting Standards
GAAP     Generally Accepted Accounting Principles
IAS      International Accounting Standards
IASB     International Accounting Standard Board
IFRS     International Financial Reporting Standards
OECD     The Organization for Economic Co-operation and Development
1. Introduction

1.1 Background

Company taxation has been a subject under review since 1960s (Parsons, 1960). In 1990, a proposal was discussed to investigate company tax differences between European Union member states to achieve harmonization between corporate tax systems (Dankó, 2012). The discussion on taxation seems to have been growing over the years (Parsons, 1960). Tax revenue collected by the state, constitutes a big portion of company expenses and it decreases business net profit and cash flow. The minimization of tax payments is a part of a company’s objective and is a common practice for maximizing profit, even though it should be done in a legal way (OECD, 2015). Multinational firms that operate in different countries try to reduce tax nationwide. While each country imposes income tax rates, the amount of the income tax rates varies significantly around the world. Henceforth, multinational corporations get the opportunity for tax planning by situating their operations in the most beneficial place for them (Doupnik & Perera, 2009).

According to Avi-Yonah (2006), corporate tax revenue has been declining around the world, where the most notable reduction is visible in developing countries because of their high rate of dependence on tax revenue in comparison to Organization for Economic Cooperation and Development (OECD) member states. Avi-Yonah (2006) states that there are two reasons for the declining corporate tax revenue. Firstly, tax aggressiveness has grown between multinational corporations, for example the use of transfer pricing and subsidiaries in countries considered as tax havens. Secondly, corporate tax reduction in countries illustrates a competition among countries to attract investment for the country’s economic boost, which has increased at a large scale in the past years (Avi-Yonah, 2006). According to Dobbins and Jacob (2016), one of the most important motivating factors for the state to change its policy is the influence that taxation has upon corporate investment. Examples can be seen in the United States tax reform of 2012, that recommended a reduction in corporate tax rate to 28% (Dobbins & Jacob, 2016). Similarly, in 2013 Sweden decreased its corporate tax rate to 22% that benefited firms towards boosting their investments. Moreover, the 2008 tax reform of German suggested a reduction in corporate tax dropping 39% to 29% (Dobbins & Jacob, 2016). OECD’s report shows that Ireland imposed a 12.5% corporate tax rate in 2015 and 2016 to attract more international investment (OECD, 2017).
The development on tax scrutiny is linked to the 2007/2008 banking crisis, in which the financial impact of the crisis as well as society’s pressure have increased inspection even more (Holland, Lindop, & Zainudin, 2016). Lately, the international tax regulators such as the European Commission and OECD have requested more corporate tax transparency. In 2015, the European Commission introduced a proposal (Brussels, 18.3.2015 COM(2015) 136 final) on tax transparency (European Commission, 2015). They argued that at present, corporate taxation has a small disclosure rate which creates abuse in tax planning by companies since no one knows about the abuse and thus, it is not challenged. The European Commission also states, that countries do not have data on the revenue loss that other countries’ tax policy may cause them. That can be explained by taking into consideration the differences of the tax systems between countries, known as loopholes. These loopholes sometimes are not recognized by the tax authorities and consequently companies utilize them to plan their tax avoidance strategies. Hence, the European Commission plans to improve corporate tax disclosure in order to fight corporate tax avoidance (European Commission, 2017).

According to Semaan (2017), corporate tax avoidance refers to different types of tax management strategies and activities that are done with the intention of decreasing taxable expenses. Also, Franzoni (1998) defines tax avoidance as a plan to decrease taxes which are imposed by tax regulators within the legal means.

The current interest on taxation involves a wider frame of tax management of multinational companies that are being reported in the media and catch the attention of different actors in society. The media criticism of companies which are engaged in tax scandals has been increasing lately. Several multinational corporations such as Apple, IKEA, Microsoft and Starbucks have been reported by important newspapers in which the emphasis was on the public's reaction to the companies' strategies. Apart from discussing the intention of tax authorities to seize the tax avoidance in the European Union, newspaper articles of Fortune, The Guardian, Daily News and BBC also include people’s reactions to those strategies, which are characterized by people protesting against the multinationals (BBC, 2017; Fortune, 2016; The Guardian 2016).
However, the actions of the European Commission with tax regulators in tackling tax avoidance strategies of multinationals could be successful, if corporations considered the society’s perceptions towards their practices as a threat to legitimacy. With the help of investigative reporters, the society is well informed about companies’ tax management strategies (Hardeck & Hertl, 2014). According to Dunbar and Schwalbach (2000), in assessing companies’ success many U.S. managers view corporate legitimacy as something distinct, essential and important even though it remains an intangible asset. As Holland et al. (2016) found, the changes that could be brought to the managers’ behavior by the public disclosure of important information, is dependent on how intense the societal attitude is and how a manager recognizes and perceives this attitude.

1.2 Research Problem

After reviewing previous literature and media reports on tax avoidance the relevance of looking into the tax avoidance media criticism and companies’ response strategies became apparent. At present research on society’s stance towards tax avoidance in relation to corporate social responsibility (CSR) remains limited (Dowling, 2014; Hardeck & Hertl, 2014). Moreover, literature has been found examining legitimacy of tax avoidance in relation to accountabilities and rights that corporations possess (Avi-Yonah, 2006; Freedman, Loomer, & Vella, 2009). The growing role in discussions that taxes play in the context of CSR has become important because of reduced state power to stop tax avoidance activities of multinational corporations (Christensen & Murphy, 2004; Doyle & Bendell, 2009; Marsden & Andriof, 1998). Even though studies in this area have been growing, very few have incorporated both tax avoidance criticism and legitimacy theory, with the most recent study of Holland et al. (2016) which focused on UK companies.

Furthermore, society’s desire to know which companies are engaged in tax avoidance scandals has grown, which becomes visible due to the increased media attention towards those scandals. Several newspaper articles were published during the last years in reputable media means, which contribute to society’s need to know the “culprits”. Articles, such as these of Chew (2016), Hutchens (2018) and Peston (2012), indicate that there is an increasing interest in the information communication to the public. Moreover, companies which are engaged in tax avoidance scandals
are under the microscope of European tax authorities, as for example the Ireland-Apple illegal tax benefits scandal (European Commission, 2016). The European commission has been working on anti-tax avoidance directives as could be noticed in the most recent Council Directive (EU) 2016/1164 of 12 July 2016 (Council of the European Union, 2016). Finally, scholars in accounting and taxation have been urging to examine the influence of media on tax communication strategies of corporations (Hanlon & Heitzman, 2010). Therefore, this study will be answering this call and close the gap by examining how companies which are subject to media criticism for their tax avoidance strategies respond to such criticism.

Hence, the aim of this paper is to examine how companies which are subject to criticism for their tax avoidance strategies respond to such criticism by analyzing tax related disclosures in organizations’ annual reports as well as CSR reports. The aim of this study will be achieved by answering the following research question:

How do multinational companies which are exposed to media criticism for their tax avoidance strategies respond to such criticism?

Moreover, this study will provide insight on multinational companies which nowadays are considered key actors in aggressive tax management and would offer important information to tax administrators e.g. the European Commission, for preparing its transparency proposals. Furthermore, a theoretical basis on linking corporate response strategies to media criticism based on a legitimacy framework is provided, which could facilitate managers in dealing with the public criticism when their legitimacy is threatened.

This thesis is structured as follows: next, the theoretical framework is presented. Later, the literature review is provided which is followed by the methodology, the analysis of the findings and discussion. Finally, implications, limitations and future research of the thesis are given.
2. Theoretical Framework

2.1 Definition of Legitimacy

Based on the Background above, companies that are subject to public criticism for their tax avoidance strategies, have to deal with potential legitimacy threat. Consequently, it can be argued that using a legitimacy framework to capture the companies’ response strategies is suitable in this study. According to Suchman (1995), managing legitimacy relies heavily on communication. Therefore, reviewing companies’ annual and sustainability reports is considered informative.

Parsons (1960) sees legitimacy as the evaluation of the actions that happen within a social system and affect the shared and common values, which is a definition that derives from a sociological perspective. On organizational level and for this study, the definition of legitimacy used by the authors is that of Suchman’s (1995), who stated that,

“Legitimacy is 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.” (p. 574)

The relationship between organizational legitimacy and social norms is not solid as a change in the norms and values would be a motivation for organizational change and by extent a pressure for legitimacy. Dowling and Pfeffer (1975) argue that organizations have three things to become legitimate. Firstly, the organizational strategy, goals and methods should be harmonized with the principles of legitimacy. Secondly, the organization’s present practices could be established and accepted by society, by altering the principles of social legitimacy through communication. Lastly, the organizations could again through communication, become identified as legitimate by using symbols, values or other institutions which have a strong culture of social legitimacy. In other words, organizations attempt to manage their legitimacy by gaining legitimacy, maintaining legitimacy and defending or repairing legitimacy, based on the organizational perspective of legitimacy.
2.2 Types of Legitimacy

Suchman (1995) identified three types of organizational legitimacy which involve a generalized perception that the organizational activities are desirable and appropriate within a socially constructed system. The types are pragmatic legitimacy, moral legitimacy and cognitive legitimacy.

Pragmatic legitimacy is based on the self-motivated interest of organizations towards their most immediate audiences, which usually involves a direct exchange between them. Although, it sometimes involves political, economic and social interconnections which could visibly affect the audience’s welfare. The role of the audience, in either occasions, is to inspect the organizational behavior towards them and determine the consequences that a potential organizational practice might have on them (Suchman, 1995).

Moral legitimacy, unlike pragmatic, is based on a sociotropic perspective of the organizations’ effects on the audience, focusing on whether an activity is the right thing to do and not on the assessment of the potential benefit that an activity might have. More particularly, moral legitimacy reflects the belief whether an activity promotes the social well-being in respect to the values of the social system (Suchman, 1995). In addition, Suchman (1995) identified four organizational features that could evaluate an organization’s moral legitimacy. Procedural and consequential legitimacy are the outcome of how society evaluates an organization’s behavior in terms of its goals and the means to achieve them. On the other hand, structural and personal legitimacy rely on the form in which an organization operates. Structural legitimacy derives from the social acceptance that an organization is valuable and worth to be supported as its structure promotes a collective valued purpose. Personal legitimacy depends on the charisma and the personal characteristics of individuals, especially leaders, within the organizations (Suchman, 1995).

Suchman (1995) claims that cognitive legitimacy rests on the notion that an organization has an affirmative backing and acceptance from society based on a taken-for-granted account. Organizational goals and techniques are considered proper and desirable from the social system without questioning. Reviewing the three types of legitimacy, it is notable that pragmatic and
moral legitimacy involve an organizational assessment from the society, while cognitive legitimacy has a character of taken-for-granted and there is absence of questioning from the social system (Suchman, 1995).

2.3 Legitimacy Strategies

According to Scherer et al. (2013), an organization is considered legitimate when its practices satisfy the social context within which it operates. When there is failure of the relationship between organizations and society Scherer, Palazzo and Seidl (2013), suggested three different legitimacy strategies for the organizations, which could facilitate the re-establishment of the harmony between organizational practices and the social system. Firstly, In the scope of the isomorphic adaption strategy, organizations change their established practices that led to a failure and adapt to the societal expectations in exchange for the maintenance of their cognitive legitimacy. The second strategy is the strategic manipulation, in which organizations try to actively influence the social expectations by manipulating key actors’ perceptions. More particularly, organizations attempt to alter expectations through campaigns, propaganda and misinformation. The last strategy is moral reasoning which builds upon the communication of both parties which are engaged in an open discourse. They argue in order to find a common solution or compromise that would bring stability to the congruence of organizational practices and social expectations (Scherer et al., 2013).

It is clear that companies have different types of response strategies to legitimacy management, however in this study the authors focus on examining how companies respond to tax avoidance criticism.
3. Literature Review

3.1 Corporate Tax Avoidance

Previous academic literature has discussed the topic of corporate taxation, tax aggressiveness and tax avoidance (Hanlon & Heitzman, 2010). Though, the connection between tax avoidance and CSR has only recently begun to get academic attention (Freedman, 2004; Huseynov & Klamm, 2012; Preuss, 2012; Sikka, 2010). This attempt to create an association between CSR performance and tax behavior focuses on the debate that corporate tax payments are considered part of CSR (e.g. Avi-Yonah, 2009; Hasseldine & Morris, 2013; Preuss, 2012; Sikka, 2010).

Tax avoidance is seen as a tool for reducing corporate expenses therefore, could bring profit maximization to shareholders, since it can be allocated to them or invested to increase future profits (Semaan, 2017). However, tax avoidance could also be considered as a factor for losing legitimacy which might be expensive because of hiring professional tax planners, and at the same time risky, when tax regulators are charged to examine if the company’s tax practices are legal (Graham, Hanlon, Shevlin, & Shroff, 2013). Semaan (2017) examines the consequence that corporate tax avoidance has on the shareholders’ value by using the Korea’s tax amendment testing quasi-natural experiment. The results show that investors view tax avoidance as wealth increase strategy. According to Dobbins and Jacob (2016), foreign-owned companies get a higher chance of moving their profit cross-country compared to companies with local parents. Therefore, tax-induced cost on investment and effective tax rate will be less for these foreign-owned companies. Transfer pricing and tax planning are legal strategies even though they are considered as aggressive and derive from the possible loopholes and legislative gaps that exist. Those gaps facilitate the reduction of taxes for multinationals by doing transfer pricing practices from high-to-low tax countries.

Holland et al. (2016) stated that tax avoidance may be studied in two different perspectives, namely legal and philosophical, however none of the frameworks have produced consistent legitimate tax avoidance ethics. Therefore, the lack of common conclusion has given managers no clear clue on the response strategy. The legal framework provides a separate description concerning tax evasion and tax avoidance, nevertheless the difference is too general for managers to use in evaluating the
tax avoidance legitimacy. According to Holland et al. (2016), corporations that have adopted the notion that tax avoidance is acceptable since it is legal, forget to take two important variables into account. The first variable is the tax regulator's attempt to separate aggressive avoidance from unacceptable avoidance. In addition, some of the tax reduction strategies which are proven to be within the law are considered wrong and a proposal for changes is in the pipeline (Holland et al., 2016). Secondly, the success of an acceptable tax avoidance strategy might depend on winning a legal investigation. Therefore, attempting tax avoidance and failing might bring the risk of criticism on the firm. In summary, just differentiating tax evasion and avoidance might not give a standpoint for each assessing stakeholder (Bond, Gammie, & Whiting, 2006; Devereux, Freedman, & Vella, 2012).

On the other hand, Freedman, Loomer & Vella (2009) and Avi-Yonah (2006) investigated tax avoidance from a philosophical standpoint by analyzing the right and accountabilities of a corporation. They argue that what constitutes a company’s rights and obligations is attached to the way it is perceived and is built on three perspectives (Avi-Yonah, 2006). Firstly, the “artificial entity” perspective, where a corporation has the social obligation to engage into activities that go beyond maximizing the shareholders’ wealth, therefore, corporations that are tax aggressive are viewed immoral. Moreover, firms have an obligation to pay the taxes as demanded by the different stakeholders (Avi-Yonah, Clausing, & Durst, 2008; Avi-Yonah, 2006; Carroll, 1991). On the other hand, the “real entity” perspective in which firms are supposed to exist separately from their shareholders and the government. Accordingly, companies should be viewed like any other legal person who pays tax, have the same legal duties and pay the same required amount (Avi-Yonah, 2006). Lastly, the “aggregate view” perspective where companies should operate with the main aim of maximizing shareholders’ profit in accordance with the neo-classical economic theory. Therefore, all decision should be made if they increase shareholders’ profit which also includes tax issues (Avi-Yonah, 2006; Friedman, 2007).

Scholars in the past years have found conflicting evidence as to the legitimacy of tax avoidance. Freedman et al. (2009) and Graham et al. (2013) analyzed UK and U.S. companies respectively in an attempt to examine whether the managerial view towards tax avoidance is regarded a threat to company legitimacy and their results revealed different answers from managers. Moreover,
Richardson et al. (2013), examined CSR reporting of Australian firms that practice tax aggressiveness and those that do not engage into aggressive tax and their findings revealed that companies that were involved into tax aggressiveness view tax avoidance as a threat to legitimacy. After reviewing the current studies conducted in taxation area, it is clear that a variation exists in how corporations in the same country or industry perceive tax avoidance. However, in this paper the primary focus is to examine how companies which are subject to criticism for their tax avoidance strategies respond to such criticism.

3.2 Corporate tax avoidance in EU Context

In an attempt of the European Union (EU) to control the corporate tax avoidance, European regulators have started to force the big international companies to share information concerning their earnings and tax bills in each of the 28 EU countries (European Commission, 2015). The European Commission plans to consider a mandatory disclosure of multinationals country-by-country information in an attempt to decrease the incidents of profit transferring (CNN Money, 2016). The common practice of many multinationals to establish headquarters in countries where the tax rates are low, such as Luxemburg and Ireland, funneling their profits through there, the top EU executive responsible for taxes, Pierre Moscovici stated that "The days are numbered for companies that avoid tax at expense of others" (CNNMoney, 2016, Days are numbered' for tax loopholes, para. 2). He also stated that corporate profits should be taxed in the places in which they were generated, and under this rule companies are required to disclose information about their profits and revenues which later will be shared among all the EU members to ensure that all tax obligations are paid (CNN Money, 2016).

The tax aggressiveness of multinationals has resulted in a loss of a huge amount of money annually. The European Parliamentary Research Service has estimated that corporate tax-dodging costs the EU between 50 billion euros ($54.5 billion) and 70 billion euros ($76.4 billion) a year (CFO, 2016). Companies achieve that by funneling their profits into low tax European countries such as Ireland and Luxembourg.
EU executives have shown interest in many multinational companies which use low-rate tax countries to funnel their profits as for example Google, Apple, Starbucks, IKEA, Amazon and Microsoft. According to Reuters (2016), in 2014, Google had transferred approximately $12 billion from its Dutch arm, Google Netherlands Holdings NV, to an Irish-registered affiliate which was based in Bermuda, called Google Ireland Holdings. This tax strategy of Google is known as “double Irish, Dutch sandwich” and it facilitates its parent company “Alphabet” to enjoy the low tax rate of just 6% on its non-US profits, since the profits pass from a 12.5% tax rate in Ireland and a zero-tax rate in Bermuda (Fortune, 2016). In addition, there is a recent agreement on a $181 million payment between Google and the UK government for settling tax disputes, while France and Italy are pursuing Google for hundreds of millions for dodging taxes (Reuters, 2016).

Moreover, Apple has been accused of being one of the first companies that use methods to avoid paying taxes. Apple, by using subsidiaries in Ireland, managed to avoid paying heftier taxes for its non-U.S. revenues (The Irish Times, 2014). According to the study released by Citizens for Tax Justice, an advocacy organization focusing on federal, state and local tax policies, Apple has booked $181.1 billion in offshore profit paying 2.3% effective tax rate on it (CTJ, 2015). In addition, in a press release of 2016, the European Commission accused Ireland and Apple for having a secret agreement for a selective treatment concerning effective tax rates which were estimated from 1% in 2003 to 0.005% in 2014 (European Commission, 2015). Similarly, in October 2016, the European Commission stated that the Netherlands had granted undue tax benefits to Starbucks in 2008, and the investigation revealed that Starbucks had supposedly cut its tax burden by up to 30 million euros since 2009 (European Commission, 2016). Furthermore, the Swedish multinational IKEA was accused of avoiding more than 1 billion euros in taxes over the last six years (Fortune, 2016). According to a report published by the Green Party Europe Free Alliance (EFA) in the European Parliament, IKEA moved money from European stores through a subsidiary in the Netherlands and pushed them to tax havens in Liechtenstein and Luxembourg (Auerbach, 2016). In that way, IKEA avoided paying taxes in several European countries such as 35 million euros in Germany, 24 million euros in France, 11.6 million euros in the UK (Auerbach, 2016).
Moreover, Amazon is the first electronic commerce company to unwind its tax avoidance strategy. It was discovered that Amazon only paid 4.2 million pounds in taxes for a total of 4.3 billion pounds worth of sales as it attributed payments in Europe to a subsidiary in Luxembourg (Fortune, 2015). Last but not least, the Seattle-based technology company Microsoft used Luxembourg as a safe tax haven in order to avoid hefty tax payments. In 2012, Microsoft funneled profit that was generated for its new Windows 8 operating system to Luxembourg and avoided paying taxes on more than $2.4 billion in sales (DailyMail, 2012). Against the cases above which were reported in European newspapers, it can be argued that tax avoidance awareness by multinational companies became popular from 2008 to 2016. Therefore, companies which were criticized for tax avoidance are facing threat to their legitimacy. Different perspectives on whether tax avoidance was a moral act were problematic. That being the case, companies lacked an external response framework to tax avoidance criticism.

4. Methodology

4.1 Research Design and Approach

Qualitative methodology is chosen to collect secondary data from corporate documents (Saunders, Lewis, & Thornhill, 2016) in order to examine how companies which are subject to criticism for their tax avoidance strategies respond to such criticism by analyzing tax related disclosures in organizations’ annual reports as well as CSR in order to examine their response towards media criticism for their tax avoidance strategies. More specifically, all parts of the annual and CSR reports are taken into consideration and not only the sections of the reports concerning income taxes.

For this study, the research population consists of all the multinational companies that avoid taxes and have been criticized by the media. The sample of this study is composed of six big multinational companies namely, Amazon, Google, IKEA, Starbucks, Apple and Microsoft. The content of this study is focused on a EU context, thus, the tax avoiding practices of the multinationals are examined within a European basis. All six multinationals have been accused of
using European countries with low tax rates in order to funnel their profits and avoid hefty tax payments. The Netherlands, Luxembourg and Ireland are the common countries that the six companies use. Although most of the companies come from U.S., they are examined concerning their tax avoiding practices within the European context. In addition, according to World Economic Forum (2017), Apple, Amazon, Starbucks, Microsoft and Alphabet (parent company of Google) have been included in the top ten list of the most admired and influential companies. The case of IKEA is included due to its foundation in Europe. Nevertheless, apart from the power of these multinationals, these companies were selected since they are excessively criticized by the media. According to Fortune’s (2016) report concerning the seven giants that are accused of tax dodging in Europe, the selected companies are components of this report. Several other newspaper articles (BBC, 2017; CNN Money, 2016; Fortune, 2016) have accused those companies in groups or individually for their tax avoiding practices. To conclude, the selection of the companies was done by strategic sampling by taking into consideration three important factors. Firstly, the strategy for tax avoiding is done in an EU context, secondly, the extensive criticism from the media for their tax avoidance strategies and thirdly, the power and position of these companies in a global scale.

Concerning the data collection process, the annual and CSR reports were searched for by using the official websites of the companies. All companies have a section on their websites concerning investors relations in which they disclose their annual reports as well as the CSR reports. Firstly, all data were gathered which was followed by a coding process. The coding process was conducted individually for each author in an attempt to keep the high trustworthiness of the study. The sample frame of the reports that were collected, is a three-year period which represents a year before the scandal exposure, the year of the scandal as well as a year after the scandal. The report of the year after the scandal was included since some of the scandals were exposed on media on the last months of the year e.g., Microsoft’s scandal was in December 2012, when the annual and CSR report had already been released for the current year.

The material that was used in this study is the annual and CSR reports of the six companies selected due to the reasons explained above. As in most qualitative researches, there is a large amount of
material and to avoid “cognitive overload” only a part of that material was used in this study (Schreier, 2014). The suitable amount of material that was used in order to answer the research question is the reports that are referred to a year before and a year after the tax avoidance scandal of the company was exposed on media. For example, the authors have access to Amazon annual reports including reports from 1997 to 2016. Nevertheless, only the reports from 2012 to 2014 were used as the scandal had been released on media in 2013. The time period for the report selected is a strategic way to get data from the years as close as possible to the scandal year.

The table below depicts the companies engaged in tax avoidance scandals, the time the scandal was exposed and on which media, as well as the reason for criticism.

Table 1: List of the companies and the time of scandal on media

<table>
<thead>
<tr>
<th>Company</th>
<th>Media</th>
<th>Time</th>
<th>Type of criticism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>The Guardian</td>
<td>May 2014</td>
<td>Tax Avoidance- Holding company in Luxembourg</td>
</tr>
<tr>
<td>Apple</td>
<td>Irish Times</td>
<td>March 2014</td>
<td>Tax avoidance transactions-selective treatment from Irish government</td>
</tr>
<tr>
<td>Google</td>
<td>Reuters &amp; Fortune</td>
<td>February 2016</td>
<td>Tax avoidance transactions-Double Irish, Dutch sandwich tax strategy</td>
</tr>
<tr>
<td>IKEA</td>
<td>Green/EFA Group</td>
<td>February 2016</td>
<td>Tax avoidance-Funneling money through Netherlands to tax havens in Liechtenstein and Luxembourg.</td>
</tr>
<tr>
<td>Microsoft</td>
<td>Daily Mail</td>
<td>December 2012</td>
<td>Tax avoidance through Luxembourg</td>
</tr>
<tr>
<td>Starbucks</td>
<td>European Commission / New York Times</td>
<td>October 2015</td>
<td>Tax avoidance- Selective tax advantages from Netherlands</td>
</tr>
</tbody>
</table>
Regarding the data analysis, content analysis was used in this study, which is the intellectual process of categorizing qualitative textual data into themes of similar entities, in a way to identify consistent patterns and relationships between these themes (Julien, 2008). According to Julien (2008), content analysis is useful for the authors to identify both conscious and unconscious messages communicated by text (explicit and implicit messages). For the coding process, open coding was used, as there has been a close line-by-line reading of the annual reports in a search to identify as many ideas and concepts that might derive from the tax information disclosed in the companies’ reports (Benaquisto, 2008). In that way, there could not exist limitations of the themes that might be excluded if the authors have already established them from prior knowledge.

The coding process was conducted by each author separately. Before the coding process, the word tax was excluded all the times when it was used for irrelevant reasons which should not be taken into consideration. The authors used the highlighting tools of Adobe Acrobat Reader DC, an application software by which the user can view, create, manipulate, print and manage files in Portable Document Format (PDF) in order to discern all the different strategies that would appear. The whole annual reports and CSR reports were analyzed as there might be incidents that the word taxation would appear also in other places than in the part of income taxes of the companies’ reports. For example, tax calculations within a table, occurrences in reference lists, headings of tables and titles of reports’ sections were excluded from the analysis. Although, occurrences of “tax” as notes under tables were included.

4.2 Coding frame

The coding frame according to Schreier (2014), is the heart of the content analysis and should consist of one main category and at least two subcategories. For this study, it was searched on how the companies disclose the tax information within their reports, thus, the main category is “tax disclosure strategies” which is then divided into three subcategories. These subcategories are concept driven and the authors were inspired by Donovan’s (2002) study to come up with the three different disclosure strategies.
The first response/tactic of Donovan (2002) is the company’s attempt to alter the social values, making disclosures that challenge the societal expectations on what is considered appropriate tax policy. A hypothetical challenging disclosure could be a disclosure that refers to the company’s strategy to maximize returns for shareholders without any reference to other stakeholders (for example in Table 2). This type of disclosure is named “Challenging”. The second tactic/strategy is the company’s attempt to shape perceptions of the organization. In that way, companies disclose information concerning their practices/policies as well as the contribution to society. According to Donovan (2002), companies should try to explain that their practices are considered legitimate. As a result, companies attempt to disclose past achievements and contribution related to taxes as well as information related to their policies in which they follow the legislative guidelines. This type of disclosure is called “Influential”.

During the coding process two different types of “Influential” disclosures were identified. The first is related to the contribution of the company with a hypothetical disclosure being the amount of taxes paid, while the second type is related to the policies of the company concerning its tax strategy (for example in Table 2). Consequently, the influential category was divided into “influential contribution” and “influential policy”. The third tactic of Donovan (2002) to repair legitimacy is that the company should conform to conferring public values. In that way the company tries to revise its practices in order to ensure public that the appropriate measures are taken to overcome an inappropriate practice. The company identifies that its practice is considered illegitimate and tries to conform to societal expectations. For this study, this type of legitimacy strategy is named “Accepting”. A hypothetical accepting disclosure could be the consideration of a practice that is inappropriate and a reevaluation and assessment of a decision regardless of the impact that it might have on the company’s interests (for example in Table 2). Lastly, a fourth tactic/strategy for companies to respond to legitimacy threats is the avoidance of disclosing negative information within the reports. This type of tactic was not identified in any of the reports, though, the name that is given to this strategy is “Deflecting”.

The table below depicts examples of different strategies included within the annual and CSR reports identified by the authors.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Disclosure Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenging</td>
<td>Refers to the company’s strategy to maximize returns for shareholders without any reference to other stakeholders.</td>
</tr>
<tr>
<td>Influential</td>
<td>Disclosures concerning past achievements and contribution related to taxes as well as information related to their policies.</td>
</tr>
<tr>
<td>Accepting</td>
<td>Consideration of an inappropriate practice and a reevaluation regardless of the impact.</td>
</tr>
<tr>
<td>Deflecting</td>
<td>Avoidance of disclosing negative information within the reports.</td>
</tr>
</tbody>
</table>
### Table 2: Examples of the different disclosure strategies

<table>
<thead>
<tr>
<th>Report</th>
<th>Quotation</th>
<th>Strategy</th>
<th>Donovan’s response/tactic to legitimacy threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google (2016)</td>
<td>“As of March 31, 2016, $45.4 billion of the $75.3 billion of cash, cash equivalents, and marketable securities was held by our foreign subsidiaries. If these funds were needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations” p.41, (annual report, 2016)</td>
<td>Challenging</td>
<td>Attempt to alter social values</td>
</tr>
<tr>
<td>Amazon (2013)</td>
<td>“Except as required under U.S. tax law, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S.” p. 23, (annual report, 2013)</td>
<td>Challenging</td>
<td>Attempt to alter social values</td>
</tr>
<tr>
<td>Microsoft (2012)</td>
<td>“We regularly are under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals.” P. 19, (annual report, 2012)</td>
<td>Challenging</td>
<td>Attempt to alter social values</td>
</tr>
<tr>
<td>Ikea (2014)</td>
<td>“In FY14, the IKEA Group corporate income tax charge amounted to €801 million. The effective corporate income tax rate was 19.3%, up from 18.9%” IKEA group FY 2014 yearly summary” p. 33, (annual report, 2014)</td>
<td>Influential (Contribution)</td>
<td>Attempt to shape perceptions of the organization</td>
</tr>
<tr>
<td>Company</td>
<td>Text</td>
<td>Category</td>
<td>Strategy</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------------------</td>
<td>--------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Amazon</td>
<td>“Contributed up to $3,750 per employee (based on dependents) to health savings accounts, which provide employees with tax-advantaged savings for current or future health care needs” p. 48, (CSR report, 2013)</td>
<td>Influential</td>
<td>Attempt to shape perceptions of the organization</td>
</tr>
<tr>
<td>Starbucks</td>
<td>“Starbucks recognizes interest and penalties related to income tax matters in income tax expense on our consolidated statements of earnings. Accrued interest and penalties are included within the related tax liability on our consolidated balance sheets” p. 63, (annual report, 2015)</td>
<td>Influential</td>
<td>Attempt to shape perceptions of the organization</td>
</tr>
<tr>
<td>Apple</td>
<td>“The Company classifies gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the Consolidated Balance Sheets” p. 56, (annual report, 2014)</td>
<td>Influential</td>
<td>Attempt to shape perceptions of the organization</td>
</tr>
<tr>
<td>Ikea</td>
<td>“We pay our taxes in compliance with national and international tax rules and regulations in a responsible and sustainable way. We enter into and maintain long-term relationships with our stakeholders with regard to tax, based on trust and transparency. We do our utmost to ensure that our tax statements are true, timely and transparent” Ikea 2015 p. 85, (CSR report, 2015)</td>
<td>Accepting</td>
<td>Conform to conferring public’s values</td>
</tr>
<tr>
<td>Starbucks</td>
<td>“The exposure amount is not material and we are currently evaluating this decision, including any impact to our fiscal 2016 tax provisions” p.91 (annual report, 2015)</td>
<td>Accepting</td>
<td>Conform to conferring public’s values</td>
</tr>
</tbody>
</table>
4.3 Quality

To ensure trustworthiness of the paper, when coding the data, each author coded the collected data separately and thereafter the categories identified, were merged afterwards to compare and discuss if anything was missed or if there is potential inconsistency for further discussion. Furthermore, latent content was used to code the texts. According to Saunders et al., (2016), latent content is referred to as interpreting meanings in order to code units of data such as sentences or paragraphs. To increase trustworthiness, all parts of categories process was clearly defined in the coding frame section and some direct quotations were included (see table 1). Moreover, when coding the entire text or paragraph which contain the word tax was followed to understand in what context was the word tax used to ensure the correct category is applied. Coding latent content requires great level of understanding therefore creates more risk of making errors (Saunders et al., 2016). Proofreading was applied throughout the whole study.

According to Saunders et al. (2016), when using content analysis on secondary data, there are possibilities that some document sources might not be available or incomplete, which means that the author has to exclude it. In addition, since the data were created for other purpose, for example
the annual reports are prepared for company stakeholders therefore, possible biased in some manner. In this case, the authors have only included a sample of companies with complete reports available online and source of data is checked in detail for accuracy.

5. Findings

Table 3 depicts the occurrences of the different strategies included within the annual reports and CSR reports of the six selected companies. Different tables were created for each company individually, in order to have a clearer image of the companies’ strategies during the three-year timeframe. Consequently, Table 3 is divided in smaller tables (Table 3.A, 3.B, 3.C etc.). The first column shows the three different strategies “Challenging”, “Accepting” and “Influential” while the latter is divided into “Contribution” and “Policy”. For each company the distinction of the different strategies is conducted for each year. Moreover, for each of the three columns that depict the years, there is a distinction related to the reports that the strategies appear in. As a result, the sub-columns of “AR”, which represents annual reports, “CSR” which represents CSR reports, and “%” which represents the total percentage of occurrences in both annual and CSR reports are created.
Table 3: Occurrences of the different strategies within Annual Reports and CSR reports by company

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Amazon</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>AR</td>
<td>CSR</td>
<td>%</td>
</tr>
<tr>
<td>Accepting</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Challenging</td>
<td>6</td>
<td>0</td>
<td>27.3%</td>
</tr>
<tr>
<td>Influential</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution</td>
<td>12</td>
<td>0</td>
<td>54.5%</td>
</tr>
<tr>
<td>Policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>0</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

| **B. Apple** |      |      |      |
| Strategy      | AR   | CSR  | %    | AR   | CSR  | %    | AR   | CSR  | %    |
| Accepting     | 4    | 0    | 10.3%| 6    | 0    | 14.6%| 5    | 0    | 27.8%|
| Challenging   | 4    | 0    | 10.3%| 5    | 0    | 12.2%| 5    | 0    | 12.5%|
| Influential   |      |      |      |      |      |      |      |      |      |
| Contribution  | 14   | 0    | 35.9%| 11   | 0    | 26.8%| 12   | 0    | 30.0%|
| Policy        | 17   | 0    | 43.6%| 19   | 0    | 46.3%| 18   | 0    | 45.0%|
| Total         | 39   | 0    | 100.0%| 41   | 0    | 100.0%| 40   | 0    | 100.0%|

| **C. Google** |      |      |      |
| Strategy      | AR   | CSR  | %    | AR   | CSR  | %    | AR   | CSR  | %    |
| Accepting     | 2    | 0    | 11.1%| 3    | 0    | 15.8%| 1    | 0    | 5.3% |
| Challenging   | 2    | 0    | 11.1%| 4    | 0    | 21.1%| 2    | 0    | 10.5%|
| Influential   |      |      |      |      |      |      |      |      |      |
| Contribution  | 8    | 0    | 44.4%| 6    | 0    | 31.6%| 8    | 0    | 42.1%|
| Policy        | 6    | 0    | 33.3%| 6    | 0    | 31.6%| 8    | 0    | 42.1%|
| Total         | 18   | 0    | 100.0%| 19   | 0    | 100.0%| 19   | 0    | 100.0%|

| **D. IKEA**  |      |      |      |
| Strategy     | AR   | CSR  | %    | AR   | CSR  | %    | AR   | CSR  | %    |
| Accepting    | 0    | 0    | 0.0% | 1    | 1    | 15.4%| 1    | 0    | 7.7% |
| Challenging  | 0    | 0    | 0.0% | 0    | 0    | 0.0% | 0    | 0    | 0.0% |
| Influential  |      |      |      |      |      |      |      |      |      |
| Contribution | 1    | 2    | 42.9%| 3    | 3    | 46.2%| 5    | 2    | 53.8%|
| Policy       | 3    | 1    | 57.1%| 3    | 2    | 38.5%| 3    | 2    | 38.5%|
| Total        | 4    | 3    | 100.0%| 7    | 6    | 100.0%| 9    | 4    | 100.0%|
The table below shows all the occurrences of the strategies disclosed in annual and CSR reports for the three-year studied period.

**Table 4:** Total disclosure strategies

<table>
<thead>
<tr>
<th>Companies</th>
<th>Total Disclosures</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AR</td>
<td>CSR</td>
<td></td>
</tr>
<tr>
<td>Amazon</td>
<td>68</td>
<td>13.1%</td>
<td>0</td>
</tr>
<tr>
<td>Apple</td>
<td>120</td>
<td>23.2%</td>
<td>0</td>
</tr>
<tr>
<td>Google</td>
<td>56</td>
<td>10.8%</td>
<td>0</td>
</tr>
<tr>
<td>IKEA</td>
<td>20</td>
<td>3.9%</td>
<td>13</td>
</tr>
<tr>
<td>Microsoft</td>
<td>114</td>
<td>22.0%</td>
<td>6</td>
</tr>
<tr>
<td>Starbucks</td>
<td>140</td>
<td>27.0%</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>518</td>
<td>100.0%</td>
<td>19</td>
</tr>
</tbody>
</table>

To begin with, it can be observed that there is a variation in the number of occurrences of the different strategies among the six companies during the three consecutive years. Nevertheless, as far as Amazon, Apple, Google and Starbucks are concerned there is consistency on the non-disclosure of any tax information that might lead to a strategy, within their CSR reports. The term
tax(ation) was not found in any of the three years period CSR reports. Contrary to the above-mentioned companies, IKEA and Microsoft disclosed tax information in their CSR reports. As it can be observed in Table 3.D and 3.E, IKEA and Microsoft included mostly influential strategy disclosures in all three years, with an exception on the year of scandal in which both companies included one accepting disclosure.

As far as the accepting strategy disclosure is concerned, it can be observed that Amazon for the three consecutive years does not include any accepting disclosure (Table 3.A). On the other hand, the highest rates of accepting disclosures can be found in IKEA’s report in 2016, in the year of the scandal, as well as for Microsoft within the 2011 and 2012 reports with rates 15.2% and 16% respectively. The highest range of the accepting disclosure rates were found regarding IKEA, as in 2015, which is the year before the scandal, there was no disclosure of the accepting strategy, while there was a significant increase of a rate of 15.4% in 2016, the year of the scandal (Table 3.D). The IKEA scandal was released on the media in February 2016, while the annual report was released in the end of 2016.

Concerning the challenging strategy disclosures, the highest rates could be observed in the reports of Amazon the year before the scandal as well as in the Microsoft report, again the year before the scandal (Table 3.A, 3.E). On the one hand, regarding Amazon, for the year of the scandal 2014 and the year after the scandal 2015, can be noticed a significant decrease on the rates of challenging disclosures from 27.3% to 17.4%. On the other hand, this is not the case for Microsoft as there was no alteration on the rates of challenging disclosures, with rates ranging from 24.2% to 20.0% (Table 3.E). In contrast, IKEA does not include any challenging disclosures within their reports during the three-year timeframe (Table 3.D). Moreover, Google shows the highest fluctuation of rates from 2015 to 2016 with an increase in challenging disclosures from 11.1% to 21.1%, followed by an immediate decrease in 2017 to 10.5% (Table 3.C). It can be argued that for Google when the scandal was exposed on media, there was an increase on the challenging disclosures which was not maintained the year exactly after the scandal.

As far as the influential strategy disclosures are concerned, the findings are classified into those related to the company’s contribution and those related to the company’s policy. Therefore,
regarding influential policy disclosures, there is a consistency on the ratings as all companies include a similar number of policy disclosure during the three-year period. Nevertheless, only IKEA shows a decrease of the rates of influential disclosures the year of the scandal since its accepting disclosures increased from 0% to 15.4%. In addition, the highest rates of policy disclosure are noticed in Amazon reports, ranging from 54.5% to 60.9% during the three-year timeframe. The company with the lowest fluctuation of policy disclosure is Apple (Table 3.B) with a range of only 2.7%. As for the contribution disclosures, it can be observed that the highest rates exist in Starbucks’ report of 2015, 56.8% (Table 3.F) and IKEA 2017, 53.8% (Table 3.D). In contrast, the lowest rates are noted in Amazon reports the year before and the year of the scandal with rates of 18.2% and 17.4% respectively. Although Starbucks has the highest rates of contribution disclosures, the year after the scandal exposed, there has been a significant decrease from 49.0% in 2015 to 31.9% in 2016.

6. Discussion

The figure provides a better understanding to the connection of Scherer et al.’s (2013) legitimacy theory strategies with the three suggested disclosure strategies identified in the current study.

Figure 1: Connection of legitimacy theory strategies to disclosure strategies.
The results show that only two companies disclosed tax information in their CSR reports (IKEA and Microsoft). On the other hand, four companies did not include any tax information within their CSR reports. This result is in accordance with Hardeck and Kim (2016) study which state that company industry plays an essential role on tax disclosure in the CSR report. During the three-year timeframe that was analyzed in this study, neither the U.S. nor Sweden, home countries of the companies that were investigated, required tax disclosure in CSR reports for companies that are not in the extractive and financial industry. Hence, the four companies (Amazon, Apple, Google and Starbucks) did not disclose any tax information in their CSR reports. However, all the companies under review, disclosed tax information in their annual reports. This indicates that IKEA conforms to IAS 12 and the rest five U.S. companies to FAS 109, which are the standards of IFRS and GAAP that require tax disclosure in the annual report for multinational companies. More specifically, companies are required to disclose detailed expected and actual tax expense, effective tax rates and material tax risk which the company may incur including all the possible mitigations in their annual reports. According to Donovan (2002), the annual report is considered a major public document that a company presents and has substantial influence on the way society perceives and alters the company’s actions. Thus, the high tax disclosure frequency in the annual reports of all six companies under review, represents companies trying to alter societal values or shape the way society perceives these companies.

As can been seen in the analysis of this study, companies tend to use a high number of influential strategies compared to other types of strategies employed. According to Suchman (1995), when managing influential legitimacy, companies need to integrate societal principals into their organizational policy or structure. However, the company is perceived as legitimate not because it provides best societal standards, but rather the companies’ actions serve a large interest of society (Suchman, 1995). When companies believe that their actions are appropriate, and society is misinterpreting them, they are trying to shape the societal perception. In that way, companies include influential disclosures that explain their practices and contribution to society by referring to the company’s past tax contribution and state tax laws that they have incorporated in their policy. The influential strategy does not require companies to change their actions. Instead, it is used for convincing the public by showing the company’s compliance to each country tax law within which
they operate, disclosing the total tax revenue contributed for all operations. Secondly, influential tax disclosure seems to be commonly high in all companies compared to the accepting disclosure. According to Scherer et al. (2013), when societal expectation is consistent, companies tend to select strategic manipulation as legitimacy strategy once costs are high, and isomorphic adaptation when the costs are low. This could also be observed, as mentioned in Fortune (2015), when media reports that the EU is losing billions each year because of multinational companies avoiding taxes. Furthermore, companies like Google explicitly confirm that when losing their defense against transfer pricing claims, they stated that

“We have received tax assessments in multiple foreign jurisdictions asserting transfer pricing adjustments or permanent establishment. We continue to defend against any and all such claims as presented. While we believe it is more likely than not that our tax position will be sustained, it is reasonably possible that we will have future obligations related to these matters” (Google AR, 2016, p. 29).

Therefore, both the company and stakeholders recognize the cost of tax avoidance changes. Accepting is the second least disclosed strategy, companies may choose to avoid acceptance because tax avoidance strategy decisions have already been taken. Therefore, managers might weigh the cost and benefit of conforming to the societal expectation and changing company policy or tax structure. When the cost of changing tax structure is considered to be too high, the accepting strategy might be ignored. In other cases, the company’s position might be questioned as well for accepting that they have been involved in tax avoiding events which is considered a poor corporate citizenship (Suchman, 1995). Secondly, Scherer, et al. (2013) argue that when managing legitimacy in a complex and heterogeneous environment, companies only prefer isomorphic adaptation when costs involved are low. Therefore, the cost of an accepting strategy motivates companies to avoid or apply conforming tax disclosure. Although accepting strategy is considered costly, the majority of companies in the study have increased accepting strategy the year in which the scandal was exposed on media. An example can be noted in the IKEA case where the scandal was released on the media in February 2016, while the annual report was released in September 2016. It can be implied that IKEA had an immediate response to the accusations of a tax avoidance
strategy as the accepting disclosures strategies were initially included the same year that the scandal was released on media.

The OECD’s definition of corporate citizenship in terms of taxation states that companies should comply with the spirit and letter of tax laws as well as working with tax authorities in all countries of operation in terms of providing important information as required. This statement shows the motivation of companies in disclosing influential strategies to show the public that they are being good corporate citizens. The example of this disclosure can be found in IKEA’s report in which it is stated “The IKEA Group pays taxes in accordance with laws and regulations, wherever we are present as retailer or in any other role” (AR IKEA group, 2017, p. 37). On the other hand, Fisher (2014) states that a company will be labelled as a poor corporate citizen when criticized in the media for tax avoidance strategies. Therefore, companies are showing their commitment for being a good corporate citizen in influential disclosure.

Companies have shown to vary in their response strategies, for example Ikea and Google both have been criticized for tax avoidance in 2016. However, Google increased the number of their accepting and challenging strategies in the year of the scandal (2016) and reduced it the year after the scandal (2017), instead of increasing influential disclosure to keep the consistent total frequency of disclosure. In contrast, Ikea had a different response strategy by introducing accepting strategy in the year of the scandal (2016) and increasing their influential strategy in the same year. After the scandal (2017) they continue to increase their influential strategy while reducing their accepting strategy. What can also be noted is that IKEA disclosed no challenging strategy in the three years analyzed (2015 to 2017). According to Scherer et al. (2013), companies that are faced with legitimacy threat choose response strategies using two different measures, namely “cost of organizational change” and “consistency of societal expectations”. Therefore, the cost of rearranging organizational decisions varies for each organization, for example the cost of re-structuring investment for IKEA will not be the same as for Google, even though they face the same type of criticism in 2016. Moreover, these companies face different expectations from their stakeholders, since each company has its own stakeholder, their response strategy will be based on the company specific stakeholders’ interests. In addition, as already discussed in the literature
review, companies lack clear clue on response strategies to tax avoidance criticism (Holland et al, 2016). Therefore, the variation in the response strategies in companies which were analyzed shows, even though some companies like Google and Microsoft are in the same high-tech industry their responses to tax avoidance criticism before and after still vary. For example, Microsoft seems to disclose tax information in their CSR reports while Google has shown no tax information in their CSR reports for the three years analyzed (2015 to 2017).

Challenging disclosure was the least preferred strategy by all companies, moreover some companies did not disclose any challenging responses at all. According to Suchman (1995), the reason for this preference is companies believe that trying to alter social values is a very dangerous type of response. Hence, the corporation will try to educate the public why their tax avoidance strategies are right and what the benefits are. The results are also consistent with Donovan (2002) who found that managers interviewed were not most likely to challenge the criticism from the society. He explained that corporations were avoiding the appearance of lecturing the public and attracting negative feelings. However, companies like Amazon explicitly disclose a challenging disclosure, for example,

“In 2013, 2012, and 2011 we recorded net tax provisions of $161 million, $428 million, and $291 million. Except as required under U.S. tax law, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings.” (Amazon AR, 2016, p22).

Moreover, the challenging strategy is considered costly compared to other types of strategies. Scherer et al. (2013) argue that moral reasoning should not be applied as a single strategy and instead be used to complement either isomorphic adaptation or strategic manipulation when they fail to manage legitimacy more effectively. This can explain Google’s example of responding with both influential, accepting and challenging strategy in the same year. However, the company seemed to transition from one strategy to the other to manage its legitimacy.
Challenging response strategy seems to be common for the U.S. companies, where they show no commitment to repatriating funds generated outside the U.S, stating the possibility of being subject to tax. For instance, in Google’s (2016) report it is stated

“If these funds were needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations” (Google AR, 2016, p.41)

This response strategy is consistent with the “aggregate view” where companies should operate with the main aim of profit maximization and all decisions are made only if they increase shareholders’ profit (Avi-Yonah, 2006; Friedman,2007).

Companies have shown to adopt mixed strategies namely accepting, influential and challenging strategy in the same year. This pattern is observed for Apple, Google and Starbucks where the three companies consistently adopted a mixed method response strategy. However, what can also be noted is that the companies followed a range in their report format where in the beginning the disclosure strategy was influential, followed by accepting and lastly challenging. This trend was observed for the entire three years analyzed. In contrast, Scherer et al. (2013) explain in their study of managing legitimacy that due to the globalized world, environmental challenges and societal expectations have become complex. Therefore, multinational companies are consistently required to change from one strategy to the other to be able to manage their legitimacy for example by applying strategic manipulation, isomorphic adaptation and moral reasoning. Thus, the globalization and changing societal expectations on tax avoidance might motivate multinational companies to make use of a mixed method response strategy.

Furthermore, from the findings it could be observed that there is a difference in the total number of disclosures between U.S. and European companies. More specifically, IKEA, which is the only European company of the studied companies, included a total of 20 strategy disclosures while the lowest in U.S. was Google with almost three times more than IKEA, and with a maximum of Starbucks which included 140 strategy disclosures. This great difference in the number of strategies within the reports could derive from the different standards that European and U.S.
companies use for reporting. IKEA uses the International Financial Reporting Standards (IFRS) while U.S. companies use the Generally Accepted Accounting Principles (GAAP). The two systems differ in terms of their methodology as GAAP is rules-based and IFRS is principles-based. According to Van der Meulen et al. (2007), it is often illustrated that U.S. GAAP is precisely defined, which results from detailed and demanding accounting and disclosure requirements. In addition, there is emphasis on exceptions or special issues and extensive guidance on explicit industry practices. On the other hand, International Accounting Standard Board (IASB) standards’ book is much less detailed and the standards are defined more broadly which means that general guidelines are set forth, and users are expected to use their best judgment in following the principles. Consequently, the rules basis of U.S. GAAP results in longer reports compared to the IFRS constructed reports (Van der Meulen, Gaeremynck, & Willekens, 2007). In this study, the different strategies were identified by examining the context within which the term “tax” appeared. Since the U.S. companies have more extended reports due to the GAAP standards they follow, it is justifiable that the term “tax” and by extent the response strategies are more in U.S. companies’ reports compared to IKEA reports which uses IFRS.

7. Conclusion

After reviewing the previous literature and media reports on corporate tax, the relevance of examining how companies respond to tax avoidance media criticism became apparent. Thus, the following research aim was stated: The aim of this paper is to examine how companies which are subject to criticism for their tax avoidance strategies respond to such criticism then. In order to meet the aim, the annual reports and CSR reports of six companies were analyzed during a three-years’ timeframe to capture their tax disclosure. The data was collected using the qualitative method of content analysis. Legitimacy theory was applied to interpret our findings. In the analysis, it was observed that not all companies disclose tax information in their CSR reports, however all of the companies analyzed had tax disclosure in their annual reports in compliance with the IFRS and GAAP reporting standards. It is clear that companies respond to tax avoidance criticism differently, however, three tax disclosure response strategies were identified namely
influential, accepting and challenging. All six companies used the influential disclosure strategy which seemed to be the dominant strategy and enabled them to alter society’s perception by either disclosing their tax contribution or information about their policies and compliance to tax laws. In addition, companies responded with the accepting strategy by changing their organization structure in an attempt to conform to societal expectations.

Furthermore, companies responded with challenging tax disclosure in an attempt to defend their values by educating the society on why their actions should be considered appropriate. The study illustrates that companies tend to apply a mixed method strategy where they respond with at least two different strategies. In the analysis it was identified that all companies have very little of challenging strategies disclosed and more particularly one of the companies did not respond with a challenging strategy at all. Although all companies responded to tax avoidance criticism, there was lack of consistence regarding whether the company will choose a challenging strategy after or before the scandal. The study does not indicate a similarity in responding strategies in cases of companies that are part of the same industry or origin. In conclusion, the study reveals that there is no common way for responding, since tax avoidance criticism affects companies differently. However, the companies’ recognition of tax avoidance criticism as a threat to legitimacy could be observed in their tax disclosure.

The study conducted has shown how companies respond to tax avoidance media criticism using the legitimacy theory. Therefore, the paper contributes to the literature on tax disclosure and tax avoidance criticism of multinational companies. The paper reveals different types of strategies which can be found in the companies’ reports. Multinational companies around the world are facing tax avoidance media criticism which threatens their legitimacy which makes it crucial for them to have clear respond framework.

Further research should take into account other company reports than annual and CSR reports were not used in this study, for example media releases to capture all the tax response strategies that companies might disclose immediately after the scandal, since all the reports used in this study are prepared annually. Furthermore, incorporating interviews with managers and company reports would be favorable for a deeper exploration of the types and the reasons for using the strategies
that companies use to respond to tax avoidance criticism. The study will help managers who are engaged to face media criticism, with better communication strategies with their stakeholders to repair their legitimacy. Lastly this study would also facilitate the tax regulators in their fight against tax avoidance, providing an understanding of what companies disclose in their reports and make recommendations on tax transparency proposals. Regarding the limitations of this study it is important to mention, that the research was conducted analyzing six multinational companies of which five were U.S companies and only one European company. Therefore, the company’s origin might have an influence on what type of tax information they disclose.
References


