The Impact of Tax Management, Voluntary Disclosure, and Economic Development on CSR Perceptions

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ABSTRACT

Corporate tax management has been linked in the media to social irresponsibility. However, little empirical research has assessed whether individuals naturally incorporate corporate tax management into their perceptions of corporate social responsibility (CSR). I experimentally examine whether this relation exists and to what extent it impacts investor and consumer behaviors. I find that tax management has a negative effect on CSR perceptions and that this relation is moderated by the availability of a firm-issued voluntary CSR disclosure. I also find that tax management negatively impacts investors' willingness to invest in a company when conducted in economically-developing countries. Conversely, tax management increases investors' firm-valuations when conducted in an economically-developed country. I find no support that tax management meaningfully changes consumer purchasing behaviors. Results from my study demonstrate the important role that corporate tax management, its location, and the availability of firm-issued CSR disclosures can play in influencing perceptions of CSR.

Keywords: corporate tax, tax management, corporate social responsibility

I. INTRODUCTION

Corporate tax and its relation with corporate social responsibility (CSR) has recently come under increased scrutiny. In part due to media leaks of corporate tax management (TM) strategies, reputational tax risk (arising from the public's perception of the irresponsibility of corporations paying low percentages of tax) has reached a crescendo. At the same time, interest in CSR is growing steadily. For example, in 2007, there were approximately 100,000 news stories related to CSR. By 2017, this number had grown to almost 250,000 (Bialkowlski and Starks 2017). Bialkowski and Starks (2017) find evidence that investor demand for socially responsible mutual funds has increased, primarily due to investors' nonfinancial considerations. Corporate TM[1] is not

[1] Corporate tax management, also referred to as tax planning, refers to the company's analysis of its business transactions from a tax perspective to be as tax-efficient as possible. Thus, it refers to the legal reduction of taxes through various legal tax strategies.

normally included in traditional conceptualizations of CSR. However, the negative connotations of firms using TM to reduce their tax expense may impact perceptions of CSR nonetheless. Calls for investigation into this relation have been issued by researchers in both accounting (e.g. Gödker and Mertins 2018; Hanlon and Heitzman 2010) and non-accounting business disciplines (e.g. Ylonen and Laine 2015). Scant research has yet examined the relation between corporate TM and CSR perceptions, though. This study helps to answer these calls by experimentally examining whether consumers and/or investors integrate TM into their CSR perceptions, as well as examining how this relation impacts purchasing and investing behavior.

Corporate TM may impact CSR perceptions through its impact on perceived equity. As the amount of taxes paid decreases, benefits to the community through tax dollars likewise decrease. This decrease in corporate-contributed benefits may skew public perception of the fairness of the firm's TM. As CSR directly relates to the fairness of corporate business practices, CSR perceptions should then likewise be impacted. Thus, effective TM may impact CSR perceptions. However, if the public views the tax system as unfair or perceives corporate tax as simply an expense to be minimized, TM may not impact equity perceptions (or may even positively impact equity perceptions).

My study seeks to help answer the calls put out by Gödker and Mertins (2018) and Hanlon and Heitzman (2010) by experimentally investigating the relation between corporate TM and CSR perceptions. I also examine the role of two potential moderators to provide additional depth to our understanding of the complexity of CSR perceptions. I select these two factors (economic development of the country and presence of a CSR disclosure) based on their current relevance to the profession. The investigation of the country's economic development is motivated in large part by the Base Erosion Profit Shifting project (BEPS). As a result of BEPS, Country-by-Country tax expense reporting may become mandated in the near future. Thus, understanding how stakeholders perceive corporate TM across a variety of settings is a critical step towards understanding how companies and shareholders may be impacted by this impending regulation. The investigation of the impact of voluntary CSR disclosures is motivated by the increasing global presence of sustainability reporting. While the U.S. does not currently mandate any form of CSR-related disclosure, many countries do require such a report. As such, an investigation into how *voluntary* CSR disclosures are currently incorporated into stakeholder valuation and behavioral decisions is timely in providing information to regulators regarding such disclosures and their impacts on the general public.

I conduct a 2x2x2 between-subjects experiment. Participants are given information about a target company and its respective industry. I manipulate the level of the target company's TM, the economic development of the country to which the TM relates, and the presence (absence) of a company-issued CSR disclosure. Participants are asked to evaluate the firm's level of CSR, the value of the firm, and to indicate their willingness to invest in and purchase goods from that company. Analyses are conducted examining to what extent the manipulated variables impact the relation between TM and the dependent variables (CSR perceptions, firm valuation, and willingness to purchase/invest).

I find support that TM has a significantly negative relation with CSR perceptions. I also find support that this relation is weaker when a firm-provided CSR disclosure is issued. Thus, firms may be able to use voluntary CSR disclosures as a reputational safeguard against negative backlash from TM.

I further find evidence that investors attempt to punish firms for managing taxes in *developing* countries by reducing their willingness to invest in those companies. Thus, investors appear to take the country's level of economic development into account when incorporating corporate TM into their investment decisions. My study is the first to find such nuance in investor judgements.

I do not find support that this impact on perceived CSR significantly influences purchasing decisions. Thus, while consumers view TM as socially irresponsible, they may not be willing to change their purchasing decisions. This is in contrast to the findings of Hardeck and Hertl (2014) and Hardeck, Harden, and Upton (2018), who find that consumers *are* willing to change their purchasing behaviors as a result of media-framed reports of corporate tax reduction. Our contrasting results may be driven by my omission of media framing of the TM as was used by both Hardeck and Hertl (2014) and Hardeck et al. (2018). My study provides support that, in the absence of media framing, corporate TM does not appear to elicit as strong of a response as previously believed. Our different findings may also be driven by my use of U.S. adults as subjects, rather than German students as used by Hardeck and Hertl (2014) and German and U.S. students as used by Hardeck et al. (2018).

My study makes three primary contributions. First, my study is the first to examine the role that a country's economic development plays in how non-professional investors view corporate TM. To my knowledge, no other study has yet investigated whether investors change their firm valuation of or willingness to invest in a company engaging in TM based upon the country in which that TM occurs. Given the potential for future country-by-country tax expense disclosure as a result of BEPS, as well as the ever-increasing number of data breaches which may also provide such information to the public, my study provides valuable information to management regarding potential reputational tax risk. Also, as I find that investors do change their investing behaviors as a result of the country in which the TM is employed, my results provide insight to regulators as to an information source that investors find meaningful. My study also contributes to our understanding of how consumers' behavior changes as a result of corporate TM, absent media-framing. Thus, my results contribute to our understanding of the complexity of consumer behavior. My results suggest that, when not given direction by the media, consumers do not alter their purchasing decisions as was previously believed.

My study also contributes to our understanding of how stakeholders incorporate corporate TM into their perceptions of CSR, and the impact of voluntary CSR disclosures on that relation. A related study by Davis, Moore, and Rupert (2017) investigates a similar question. They find that, when a third-party-issued CSR rating is absent, TM negatively impacts CSR perceptions. When a CSR rating is present, though, the impact of TM is conditional on whether that rating is high or low. My study compliments Davis et al.'s (2017) study by providing additional support that TM is incorporated into CSR perceptions by stakeholders. My study extends Davis et al.'s (2017) study, though, in that I (1) examine the impact of firm-issued voluntary CSR disclosures rather than third-party issued ratings and (2) use a non-student population to do so. As firm-issued CSR disclosures are more susceptible to management bias than a third-party issued rating, my study contributes to the discussion of how the disclosures can be used to influence investor and consumer behavior as well as whether the disclosures *should* be regulated. Also, while student participants are commonly used in experimental research to proxy for non-professional investors, they may not be a suitable proxy in situations regarding CSR due to the ethical undertones of the construct. Thus, my study contributes a deeper and more generalizable understanding of how consumers and investors incorporate TM into their perceptions of CSR.

The remainder of my study is structured as follows. In section II, I discuss the relevant literature for my study and develop my hypotheses. Section III discusses the methodology, sample, and primary variables used in the study. Section IV discusses the results of my experiment. Section V concludes.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPEMENT

Literature Review

Relation Between CSR Perceptions and Corporate Tax Management

Currently, little is known about whether corporate TM is related to CSR perceptions. Insight into commonly accepted CSR-related activities can be gained through recommended CSR disclosure frameworks. The most beneficial of these frameworks (in regards to credibility and helpfulness to investors) comes from the Global Reporting Initiative (GRI) (GreenBiz 2013). One of the GRI's suggested voluntary disclosures is tax activity (GRI 2016). Specifically, the GRI recommends disclosing tax payments made to all governments by country, as well as related penalties (Disclosure 201-1). These recommendations suggest that the GRI believes tax compliance to be related to CSR. However, TM is more nuanced than tax compliance. Thus, it is unclear if the GRI views TM as a component of CSR.

Limited research has investigated how stakeholders incorporate corporate TM into their perceptions of CSR. Hardeck and Hertl (2014) examine consumer reactions to TM using a sample of German students and find that corporate TM negatively impacted participants' evaluation of the firm. They also find support that TM reduced participants' willingness to pay for products from the respective company. In a follow-up study, Hardeck et al. (2018), using samples of students from both Germany and the U.S., again find support that TM negatively impacts consumers' perceptions of CSR and their willingness to pay. Davis et al. (2017) examine non-professional investor reactions to TM using a sample of U.S. students and find that, when a company is given a low CSR rating by a third-party ratings agency, TM is negatively related to investor CSR perceptions. This relation disappeared when the firm was given a high CSR rating, suggesting that the impact of TM on investor CSR perceptions is moderated by non-tax CSR performance. However, Hardeck and Hertl (2014), Hardeck et al. (2018), and Davis et al. (2017) limit their investigations to students. While students may generally be good proxies for non-professional investors and the general public, the generalizability of their responses to constructs with ethical undertones (like CSR and tax avoidance) may be limited (Fischer and Rosenzweig 1995; Smith, R. Skalnik, and P. Skalnik 1999).

Equity Theory

A common theme in evaluations of both CSR and TM is the concept of equity. CSR is built fundamentally around the idea of stakeholders being treated equitably. Reducing corporate contributions to society through a reduced tax liability thereby raises the question of whether corporate TM is fair to society. Most research regarding equity is rooted in equity theory (Adams 1965). Equity theory posits that individuals expect comparable ratios of contributions and distributions across all members of an exchange. Equity theory also posits that individuals' contributions and distributions should be subject to similar rules and procedures.

While equity theory posits that parties to an exchange are expected to be subject to similar rules and realize similar ratios of inputs to outputs, prior research suggests that equity perceptions may also be influenced by the varying perceived needs of the parties. Termed the social responsibility norm, this norm posits that allocations made based upon the relative perceived need of the recipient (rather than based upon a consistently applied ratio) may be viewed as equally fair as allocations made based upon respective contributions (e.g. Homans 1961; Berkowitz 1972; Pruitt 1972; Leventhal, Weiss, and Buttrick 1973; Deutsch 1975; Leventhal 1976).

When an exchange is perceived be inequitable, individuals will attempt to restore equity (Adams 1965; Walster, Walster, and Berscheid 1978). To do this, individuals can either attempt to convince themselves that the situation is truly equitable or attempt to restore equity themselves through their contributions to the exchange. For example, using an experiment, Kim (2002) finds that taxpayers who perceive that they are treated inequitably relative to other taxpayers generally report less income. These taxpayers thus alter the overall equity of the exchange. Similar results are found across a number of archival and experimental tax compliance studies (e.g. Wallschutzky 1984; Yankelovich, Skelly, and White 1984). Thus, when an exchange is seen as unfair, individuals will attempt to alter the exchange through whatever means are available.

Hypothesis Development

Corporate Tax Management and CSR Perceptions

Consistent with equity theory, investors and consumers should expect corporations to pay levels of tax similar to those paid by others (both corporations and individuals). When that expectation is not met due to higher levels of TM, the TM may be viewed as unfair and socially irresponsible (e.g. Starbucks (BBC 2012; Christians 2013), Ikea (Sheffield 2016), Amazon and Apple (Chapman 2017)). As such, my first hypothesis is formally stated as:

H1: Corporate tax management is negatively related to CSR perceptions.

The Impact of Corporate Tax Management on Consumer Behavior

If corporate TM is negatively related to CSR perceptions, it may as a result lead to changes in behavior. As discussed above, when faced with perceived inequity, individuals will attempt to restore equity through whatever means are available to them. Thus, consumers may attempt to restore equity by altering their own inputs to the exchange. While this may be done in part by reducing their own tax payments, they may also choose to reduce benefits received by the corporation by choosing not to purchase the firm's products or lowering their willingness to pay for those products when that firm engages in TM, even without media framing (as was used by Hardeck and Hertl (2014) and Hardeck et al. (2018) to investigate consumer reactions). I thus hypothesize the following:

H2: Consumers are less likely to purchase and will pay less for products from companies engaging in tax management.

The Impact of Corporate Tax Management on Investor Behavior

Non-professional investor[2] behavior may also be impacted by CSR and equity perceptions. Corporate TM may impact investment behavior in two distinct ways. First, if TM reduces perceived CSR because it is perceived to be inequitable and thereby a tax risk, investors' may lower their valuation of the firm to accommodate that increased risk. Second, if they perceive the firm's TM to be unfair, they may decrease their willingness to invest in that firm regardless of firm value. Formally stated, my third hypothesis is:

[2] As the FASB's disclosure framework focuses on how information will be viewed by a reasonable investor, decisions made by non-professional investors are of importance to the accounting practice. Non-professional investors also represent a significant portion of share owners (Belzile, Fortin, and Viger 2006). Non-professional investors are thus commonly studied in experimental settings (e.g. Elliott, Jackson, Peecher, and White 2014; Rennekamp 2012). Because my study includes variables that may be included in disclosures in the future (country by country tax expense and CSR disclosure), I include non-professional investors in my study to speak back to both the practice and to legislators.

H3: Investors are less likely to invest in and perceive a lower value for companies engaging in tax management.

The Moderating Effect of Economic Development

Other variables may moderate the relation between corporate TM and CSR perceptions. One such variable is the economic development of the country (ED) in which the TM occurs. Many large companies operate and pay taxes in a variety of economically developed and developing countries. As developing countries are generally less wealthy than developed countries, they have more difficulties in meeting basic human needs through tax revenues (Christian Aid 2009). The country's perceived level of need may then moderate the impact that TM has on CSR perceptions.

Applying the social responsibility norm to a multinational tax setting, individuals may view corporate TM as less fair when conducted in developing countries than in developed countries. This perception of fairness, based upon ED, should then moderate the relation between perceived CSR and TM. I expect this moderation to lower CSR perceptions for companies managing their taxes in developing countries compared to developed countries. I expect this interaction to impact consumer and investor behavior accordingly. Formally stated, my fourth hypothesis is:

H4a: The effect of tax management on investor and consumer perceptions of CSR will be moderated by the country's level of economic development.

H4b: The effect of tax management on consumers' willingness to pay for and purchase products will be moderated by the country's level of economic development.

H4c: The effect of tax management on investors' perceived value and willingness to invest will be moderated by the country's level of economic development.

The Moderating Effect of Disclosing Other CSR Activity

Despite the benefits of increased perceptions of equity and CSR, corporations may be unwilling to lessen their TM to influence these perceptions. However, drawing attention to the company's other, non-tax CSR contributions through voluntary disclosure may provide a reputational barrier against negative perceptions (e.g. Dhaliwal, Li, Tsang, and Yang 2011; Christensen 2016). By communicating the company's other CSR activities, stakeholders may incorporate these other activities as additional inputs to the company's exchange with society. Thus, the CSR activities help to balance the exchange equity. This should lead to consumers and investors perceiving the exchange as more equitable, reducing the adverse effect of TM.

No work has yet been done to establish whether voluntary disclosure of non-tax CSR activities is an effective reputational shield against tax risk. However, as corporations appear to use CSR activities as reputational shields against TM (e.g. Davis, Guenther, Krull, and Williams 2016), they may also attempt to use the disclosure of such activities. No evidence has yet been found, though, of the effectiveness of these disclosures. As CSR disclosures are typically provided voluntarily by management, they may be viewed as opportunistic rather than altruistic. Currently, the disclosures are unregulated and unaudited. Despite this, these voluntary disclosures may still have the power to act as reputational safeguards. By disclosing information about non-tax CSR activities, firms may be able to boost consumers' and investors' CSR perceptions in the face of negative tax press. By publicizing the firm's commitment to non-tax CSR activities, the firm may increase its perceived contributions to the exchange between themselves and the government/community, increasing perceptions of equity.

My fifth hypothesis thus examines the ability of a CSR disclosure to act as a reputational shield from the reputational tax risk associated with TM. I predict that a CSR disclosure will have a direct positive effect on CSR perceptions due to its predicted ability to increase the corporation's perceived contributions to society. Furthermore, I predict that a CSR disclosure will moderate the impact that TM has on CSR perceptions and investor/consumer behaviors. Formally stated, my fifth hypothesis is as follows:

> *H5a: The effect of tax management on perceptions of CSR will be moderated by the presence of a firm-issued CSR disclosure.*
>
> *H5b: The effect of tax management on consumers' willingness to pay for and purchase products will be moderated by the presence of a firm-issued CSR disclosure.*
>
> *H5c: The effect of tax management on investors' perceived value for and willingness to invest will be moderated by the presence of a firm-issued CSR disclosure.*
>
> *H5d: The presence of a voluntary CSR disclosure is positively associated with CSR perceptions.*

III. METHODOLOGY

I use a 2x2x2 (ETR X ED X CSR disclosure) between-subjects experimental design[3]. I use corporate ETR as a proxy for TM. The ETR variable is manipulated at two levels relative to the industry average ETR. The target company's ETR is set to either 25 percent or 15 percent,

[3] This study was approved by the University of Oklahoma Institutional Review Board.

compared to an industry average of 25 percent[4]. The ETR is provided to participants in a neutrally-worded media report[5]. I present the ETR as pertaining to a specified country[6].

The ED variable is manipulated at two levels, with the country in which the corporate TM has occurred being either economically developed (Germany or the U.K.) or developing (Guatemala or Indonesia[7])[8].

CSR disclosure is also manipulated at two levels, with some participants receiving firm-issued CSR information about the firm's activities in the respective country and others receiving no such information.

Design and Procedures

My instrument begins with basic background information about a target company and its respective industry. Participants are told that the target company operates in the athletic wear industry, as well as where the company is currently positioned within that industry for brand

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[4] This experiment was administered before the passage of the Tax Cuts and Jobs Act of 2017.

[5] This was done to more closely simulate the recent media reports disclosing corporate TM while simultaneously ensuring a lack of media framing.

[6] As country-by-country tax disclosures may eventually become public due to the BEPS project, utilizing a country-specific ETR allows me to gain valuable insight on the potential consequences of public country-by-country tax reporting.

[7] Both the developed and developing countries were chosen based upon their inclusion in the OECD's listing of economically developed and developing countries. Per my pilot study, results across the two countries in each manipulation were not significantly different.

[8] I use two countries from each category to ensure that participants' strong feelings towards any particular country do not significantly impact my results.

recognition, quality, and price. Participants are also provided with a short financial summary, consisting of the current year earnings, a brief balance sheet, and comparisons across industry for earnings growth, EPS, and current stock price. However, the target company's stock price is not provided at this stage.

Next, participants are given a neutrally-worded media report[9] stating the company's ETR in a specific foreign country (either developed or developing), as well as the industry-average ETR in that country.

Participants assigned to the CSR Report Present condition are also provided with a brief CSR disclosure issued by the company[10]. This brief report contains information regarding charitable giving, employee safety, sustainability, and supply chain management (including anti-bribery and avoiding child labor). These four activities were selected to provide participants with a wide array of activities to provide a strong manipulation.

After viewing the above information, participants are asked a series of questions designed to address my hypotheses. They are asked how socially responsible they believe the target company to be, for how much they expect the company's product to sell, and how likely they would be to purchase the company's product assuming a reasonable price. They are also asked to provide a stock price estimate for the target company within the range of $30 per share to $55 per

[9] This media report is based on the media report issued regarding Starbucks' tax management in the U.K. I have removed all accusatory/negative language from the report in order to present a neutral, yet realistic, media report. An example of the media report provided to subjects is included in an appendix.

[10] The order in which participants receive the media report and press release is randomized across conditions.

share, as well as their likelihood of investing in the company[11]. While all participants are asked these investment questions for design simplicity, only the answers provided by the investor sample are included in my analyses.

Participants are next provided with manipulation check and construct validity check questions. They conclude the instrument by answering questions about their views of corporate TM, CSR, and other control questions.

Participants

Using TurkPrime, I recruit 447 participants from the U.S. Of these participants, 206 are non-professional investors. The remainder (241 participants) are members of the general public. To recruit the investor sample, I use TurkPrime to screen candidates for investment experience. Candidates who invest in the stock market either in their spare time or through their employer via an employee purchase/retirement plan[12] are admitted into the study as investors. I then do an additional screening of those participants to verify their qualification by asking them about their investment experience and knowledge at the end of the instrument. I utilize a short quiz to assess

[11] Asking investors to provide a stock price estimate will provide insight into their perception of the firm's potentially reduced value due to the tax risk. Asking investors their likelihood of investing in the company will provide insight into their perceptions of the firm's equity. An investor may, based upon risk, perceive a stock price to be fair. However, if the investor perceives the company to be socially irresponsible / inequitable, their willingness to invest in that company should decrease even at the perceived reasonable price per share.

[12] Investment through an employer may allow the individual to invest without performing any investment analysis. Thus, the individual may not be qualified as a non-professional investor. However, as I further screen participants by using an investment knowledge quiz, I am confident that all individuals in my investment sample have relevant investment knowledge suitable to a non-professional investor.

investment knowledge[13]. Participants stating that they have no current investments or demonstrating insufficient investment knowledge[14] are omitted from the study. No such screening was done for the general public sample.

[Insert Table 1 Here]

I conduct a series of t-tests and chi-square tests between the investor sample and consumer sample to compare the characteristics of the two groups. See Table 1 for the overall demographic profile.

As expected, the two groups do significantly differ on age, income, education, college major, experience, and gender. The mean age of the investor sample is 41.9 years, while the mean age of the consumer sample is 44.5 years. The investor sample has significantly higher income (mean of $93,798) than the consumer sample (mean of $67,448). The average investor has completed some graduate school and has analyzed financial statements two to four times, while the average consumer holds an associate's degree and has analyzed financial statements only once. Lastly, the two groups significantly differ on gender makeup. While 71 percent of the recruited investors are male, only 34 percent of the recruited consumer sample are male.

IV. ANALYSES

Test of Random Assignment

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[13] Specifically, I ask participants true or false questions regarding the meaning of short-selling stocks, efficient stock markets, dividends, IPOs, compound interest, and growth strategy mutual funds.

[14] As I am assessing non-professional investors, I do not expect participants to correctly answer all questions on the quiz. Thus, I classify insufficient investment knowledge as missing all questions on the investment quiz. So long as participants answer at least one question correctly, I include them in my sample.

Participants were randomly assigned to one of eight conditions (i.e. high/low TM, developed/undeveloped country, and present/absent CSR disclosure). I use ANOVA to examine whether the participants are randomly assigned with regards to my control variables. I find no significant differences for income, experience looking at financial statements, education, or beliefs about corporate duty[15] across the manipulations. I find that my ED manipulation was not evenly dispersed with regards to participant age. As such, I include Age as a variable in my hypothesis testing. To test for the random assignment of gender, I utilize a chi-square test and find an insignificant result.

Analysis

As many of my control variables are highly correlated with each other (specifically experience, education, income, and gender), I use stepwise regression to determine which control variables increase the significance of the model for each of my dependent variables. See Table 2 for a correlation table of these variables. The identified control variables are then included in the proceeding analyses.

[Insert Table 2 here]

My first hypothesis predicts that corporate TM impacts perceptions of CSR. I use ANCOVA to test this prediction. See Table 3. Controlling for my two predicted moderators, I find

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[15] For participant beliefs about corporate duty, I follow Davis et al. (2017) in using a 9-question scale asking various questions about whether a corporation is responsible to shareholders or stakeholders. I code the shareholder-focused questions as positive scores and the stakeholder-focused questions as negative scores. I then net the shareholder- and stakeholder-focused responses to identify whether the participant believes corporations should be more shareholder or stakeholder oriented.

a significant main effect of TM on CSR perceptions (p=.0579[16]).[17] As TM increases, CSR perceptions decrease. H1 is thereby supported.

[Insert Table 3 here]

I further predict that the impact of TM on CSR perceptions will increase when the TM occurs in economically undeveloped countries (H4a). Using ANCOVA, I find an insignificant interaction between the level of ED and TM (p=0.8501). However, as the interaction I predict is ordinal, I use contrast coding to supplement my ANCOVA. See Table 3, Panel C. The contrast codes used are derived from my hypothesis. I apply my contrast codes across my development conditions, regardless of CSR disclosure condition. I predict that CSR perceptions will be highest when companies engage in low levels of TM, regardless of the country's level of development. Thus, I assign a code of 1.5 to the low TM conditions in both developed and developing countries. As TM increases, I predict that CSR perceptions will decrease more in developing countries than in developed countries. For the high TM/developed country condition, I assign a code of -1. For the high TM/developing country condition, I assign a code of -2 to represent the greater negative impact of the increased TM compared to its impact in the developed country. Using my planned contrast weights for my cell means, my hypothesis is supported (F=4.62, p=0.0321). I find support

[16] Unless otherwise stated, all reported p-values are two-tailed.

[17] In untabulated results, I include a dummy variable for my investor sample to determine if investors incorporate tax management into their CSR perceptions and purchasing behaviors differently than consumers. I interact this dummy variable with my tax management variable (ETR), as well as the interactions with country development and CSR disclosure. All interactions with this dummy variable provide insignificant p-values. Thus, I fail to find evidence that investors and consumers incorporate corporate tax management into their CSR perceptions and purchasing decisions differently.

that the effect of TM differs across country conditions. However, after analyzing the simple effects of TM at each level of my country condition (untabulated), I fail to find evidence of CSR perceptions falling as a result of greater TM in developed countries (p=0.1519). I repeat simple effects analysis for the developing country condition and again find no support that CSR perceptions fall when TM increases (p=0.1687). Thus, while H4(a) is supported, the effect may not be economically meaningful.

I also predict that the negative impact of TM on CSR perceptions will be lessened when a CSR disclosure is provided[18]. Using ANCOVA, I find a significant interaction between the presence of a CSR disclosure and TM (p=0.1832, two-tailed; p=0.0916, one-tailed). I again use contrast coding to supplement my ANCOVA. See Table 3, Panel C. My contrast codes are again derived from my hypothesis and applied across my disclosure conditions. I predict that CSR perceptions will be highest when companies engage in low levels of TM and a CSR disclosure is present. I code my low TM/CSR disclosure present condition as 1.5. I do not predict a significant difference between my low TM/CSR disclosure absent condition and my high TM/CSR disclosure present condition because I predict the CSR disclosure will moderate the negative impact of the high TM. I code these conditions with a 1. I predict that the lowest CSR perceptions will result from the high TM/CSR disclosure absent condition. Thus, I code that condition as -3.5.

Using my planned contrast weights for my cell means, my hypothesis test is significant (F=42.38, p<.0001). Thus, I find support that the effect of TM differs across CSR disclosure conditions. I next analyze the simple effects of TM at each level of my disclosure condition. In

[18] I do not manipulate the extent of CSR disclosure. In my experiment, all participants receive a disclosure showing four CSR activities. I do not test whether different results would be found with more or fewer activities disclosed.

untabulated results, I again find support for H5(a). I find that the negative impact of TM on CSR perceptions is greater when a CSR disclosure is absent (p=0.0223) than when a CSR disclosure is present (p=0.5617).

I next examine whether TM meaningfully impacts consumer decisions (H2). To test this, I again use ANCOVA. I first examine consumer willingness-to-purchase. I expect to find a significantly negative direct effect of TM on consumer willingness-to-purchase. See Table 4. I find an insignificant main effect of TM on participants' willingness-to-purchase (p=0.9567). Thus, consumers do not appear to change their purchasing decision based upon the company's TM.

[Insert Table 4 here]

While TM alone does not appear to impact consumers' decision, it *may* impact their decision conditional on the country's level of development (H4b). While my ANCOVA shows an insignificant interaction (p=0.5746), I rely on contrast coding to test my predicted ordinal interaction. However, I again find an insignificant result (p=0.8062). Thus, I find that consumers do not change their willingness-to-purchase regardless of the ED of the country in which the corporation manages its taxes.

I also examine whether the presence of a CSR disclosure moderates the impact of TM on consumers' willingness-to-purchase (H5b). My ANCOVA again shows an insignificant interaction (p=0.4090). Turning to contrast coding, I find an insignificant interaction between CSR disclosure and TM (p=0.1146). See Table 4, Panel C. Thus, I find that consumers do not significantly change their willingness-to-purchase regardless of the presence of a CSR disclosure.

I next conduct similar tests for consumers' willingness-to-pay for products. While consumers may still be willing to purchase products from tax managing companies, they may not be willing to pay as much for those products as they would for products produced by companies engaging in less TM. See Table 5. Contrary to Hardeck and Hertl (2014) and Hardeck et al. (2018), I fail to find evidence that consumers adjust their willingness to pay in response to corporate TM (p=0.2604).

[Insert Table 5 here]

I then examine whether the country's level of development moderates the impact of corporate TM on consumers' willingness-to-pay (H4b). Using both ANCOVA (p=0.2211) and contrast coding (p=0.2879), I find no support that this moderation exists. Thus, I conclude that consumers do not change their willingness-to-pay based upon corporate TM regardless of the ED of the country in which the TM occurs.

I further examine whether the presence of a CSR disclosure moderates the impact of TM on consumers' willingness-to-pay (H5b). Here, my ANCOVA shows a significant interaction (p=0.1966, two-tailed; p=0.0983, one-tailed). However, after supplementing with contrast coding, I fail to find support for my predicted interaction between CSR disclosure and TM (p=0.3919). Thus, I conclude that consumers do not change their willingness-to-pay in the direction predicted. See Table 5, Panel C. However, as I find a significant two-way interaction effect in my ANCOVA, as well as a significant three-way interaction effect (p=0.0194), I conclude that a disordinal interaction does exist. Thus, CSR disclosure can moderate the relation between TM and willingness-to-pay conditional on the country's level of development. Specifically, I find that, when TM occurs in economically developed countries, CSR disclosure significantly moderates the negative impact of TM on CSR perceptions. This moderation is not present when TM occurs in developing countries.

I also examine whether corporate TM meaningfully impacts investor decisions (H3). First, I expect to find a significantly negative direct effect of TM on willingness to invest. I find the impact of TM on willingness to invest to be insignificant (p=0.4861). See Table 6. Thus, I fail to find support that investors would be less willing to invest in companies managing their taxes.

[Insert Table 6 here]

I then examine whether the country's ED moderates the impact of TM on investors' willingness to invest (H4c). My ANCOVA shows a significant interaction (p=0.0511). However, after supplementing with contrast coding (using the same predicted codes I use for H4a), I fail to find support for my predicted interaction between ED and TM (p=0.3306). I find no support that investors change their willingness to invest in the direction predicted.

From my ANCOVA, though, I do find evidence that TM and country development interact to change how willing investors are to invest in an unexpected manner. I find that investors are less willing to invest in firms engaging in higher levels of TM (relative to the industry average) in developing countries. In developed countries, investors appear to *increase* their willingness to invest when companies engage in higher levels of TM. This finding is consistent with investors viewing TM as good business so long as they occur in developed countries. Thus, while I do not find support for my predicted interaction, I do find support for a different and perhaps more interesting interaction between TM and ED.

I further examine whether the presence of a CSR disclosure moderates the impact of TM on investors' willingness to invest (H5c). Here, my ANCOVA shows an insignificant interaction (p=0.5821). After supplementing with contrast coding, I fail to find support for my predicted interaction between CSR disclosure and TM (p=0.4626). See Table 6, Panel C. I conclude that voluntary CSR disclosures do not significantly moderate the impact of TM on investors' willingness to invest.

I next conduct a similar test for investors' stock price valuations. See Table 7. I predict that greater levels of TM will result in lower stock valuations. I again find insignificant results ($p=0.3395$).

[Insert Table 7 here]

I then examine whether the country's level of development moderates the impact of TM on investors' stock price valuation (H4c). However, I again fail to find evidence of such moderation using ANCOVA ($p=0.3725$) or my contrast coding ($p=0.3725$).

I next examine whether the presence of a CSR disclosure moderates the impact of TM on investors' stock price valuations (H5c). My ANCOVA shows an insignificant interaction ($p=0.6550$). After supplementing with contrast coding, I fail to find support for my predicted interaction ($p=0.7179$). See Table 7, Panel C. I find no evidence that a voluntary CSR disclosure impacts investors' incorporation of a company's TM on their stock price valuation.

Lastly, I examine whether a voluntary CSR disclosure has a direct effect on CSR perceptions and consumer/investor behaviors. I find that the presence of a CSR disclosure positively relates to CSR perceptions (per table 3: $p<0.001$), as expected. Moving to consumer behaviors, I find evidence that the presence of a CSR disclosure increases consumers' willingness to purchase (per table 4: $p=0.0286$) and willingness to pay (per table 5: $p=0.0890$, one-tailed) for products. This result demonstrates the value that voluntary CSR disclosures can have for corporations and their shareholders. However, CSR disclosures do not have a direct effect on investors' willingness to invest (per table 6: $p=0.4921$) or stock price valuation (per table 7:

p=0.8844), contrary to the findings of Elliott et al. (2014). Thus, non-professional investors may not necessarily view CSR disclosures as value-enhancing for the firm.

V. CONCLUSION

This study examines the impact of TM on CSR perceptions and behaviors. I find support that TM is negatively related to stakeholders' perceptions of CSR. Extending on Hardeck and Hertl (2014) and Hardeck et al. (2018), I find this relation in the absence of media-framing, providing support that this relation appears even in the absence of prompting. Also, contrary to Davis et al. (2017), I find this relation regardless of the company's CSR activities.

I examine whether this relation impacts consumer and investor decisions in a meaningful way. Contrary to Hardeck and Hertl (2014) and Hardeck et al. (2018), I find no support that TM decreases consumer willingness-to-purchase or willingness-to-pay. My findings suggest one of two possibilities: (1) consumer purchasing behaviors are driven more by media framing of TM than by the TM itself, or (2) due to the underlying ethical connotation present in TM, students may not be a generalizable population in TM scenarios.

I also find that non-professional investors appear less willing to invest in companies managing their taxes in *developing* countries. Conversely, when TM is undertaken in developed countries, investors are more willing to invest in that company. This finding, coupled with a lack of evidence that investors change their stock price valuations similarly, supports the notion that investors change their behavior because they do not wish to associate with a company using TM in developing countries. Rather than perceiving the TM as a reputational risk and logically decreasing their valuation of the company's stock price, investors appear simply unwilling to engage with the company. However, in developed countries, this same TM appears to be viewed as good business, resulting in investors' increased willingness to invest. My results regarding investors are also contrary to the results found by Davis et al. (2017). While Davis et al. (2017), using a student sample, find support that investors are willing to pay a price premium for the stock of socially responsible companies (in developed countries) that manage their taxes, I find no such evidence.

My findings should be considered in light of certain limitations. I provide select information about the target firm to allow the study to be completed in a reasonable time. Investors would have access to more information outside of my study. I also did not manipulate the tax strategies used by the target company to manage its tax expense. Rather, I focused on consumer/investor reactions to the TM.

Despite these limitations, my findings make a significant contribution to the emerging literature regarding TM and CSR perceptions. My study is the first to examine the role that voluntary CSR disclosures can play in CSR perceptions, as well as in investor and consumer behavior. My study is also the first to examine the role that international ED can play in the incorporation of TM into perceptions of CSR, purchasing behaviors, and investment decisions.

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TABLE 1

Overall Demographic Profile

Sample (n=447)	**Number of Respondents**	
Age	n	%
21-29	84	18.79%
30-39	137	30.65%
40-49	81	18.12%
50-59	62	13.87%
60-69	64	14.32%
>69	19	4.25%
Gender		
Female	218	48.77%
Male	229	51.23%
Income		
<$25,000	58	12.98%
$25,001 - $45,000	79	17.67%
$45,001 - $75,000	122	27.29%
$75,001-$120,000	107	23.94%
<$120,000	81	18.12%
Education		
High School	48	10.74%
Some College	53	11.86%
Associate's Degree	39	8.72%
Bachelor's Degree	178	39.82%
Some Graduate School	22	4.92%
Graduate Degree	107	23.94%
College Major		
Business	93	26.88%
Liberal Arts	67	19.36%
Science/Engineering	82	23.70%
Social Science	42	12.14%
Other	62	17.92%
Experience Analysing Financial Statements		
Never	172	38.48%
1 Time	56	12.53%
2 Times	120	26.85%
3 Times	44	9.84%
4 Times	55	12.30%

TABLE 2
Correlation Matrix

Variable	Age	Experience	Education	Gender	Income
Age	1				
Experience	**0.0437**	1			
Education	**0.0137**	0.2963	1		
Gender	-0.0920	-0.3589	-0.2316	1	
Income	**0.0148**	0.2024	0.3241	-0.1017	1

The table finds the corrrelation between the control variables using the sample of 447 observations. Pearson correlations are reported. All correlations are significant at least at the 10% level except the correlations in bold. See below for variable definitions.

Variable Definitions:

Age	= Age of participant as measured in years.
Experience	= Number of times the participant has personally analyzed financial statements for investment purposes.
Education	= The highest level of education the participant has achieved academically (e.g. High School, Bachelor's Degree, Graduate Degree).

TABLE 3
Descriptive Statistics and ANCOVA Results for CSR Perceptions
Hypotheses 1, 4, and 5 Analysis

Panel A: Descriptive Statistics

CSR Perceptions when CSR Disclosure is NOT Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	55	4.7348	1.0713	60	5.0887	0.8771
High Tax Management	60	4.6021	1.0826	61	4.5402	1.1406

CSR Perceptions when CSR Disclosure is Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	45	5.5349	1.2100	52	5.5756	1.0172
High Tax Management	58	5.3081	1.3624	54	5.6848	1.0220

Panel B: ANCOVA Results for CSR Perceptions

Source of Variation	**SS**	**df**	**MS**	**F-Stat**	**p-value**
Corrected Model	83.8235	9	9.3137	7.65	**<.001**
Tax Management	4.4028	1	4.4028	3.62	**0.0579**
Economic Development	3.3859	1	3.3859	2.78	**0.0961**
CSR Report	67.9461	1	67.9461	55.81	**<.001**
Tax Man. x Econ. Dev.	0.0436	1	0.0436	0.04	0.8501
Tax Man. x CSR Report	2.1630	1	2.1630	1.78	0.1832
Econ. Dev. x CSR Report	0.1080	1	0.1080	0.09	0.7659
Tax Man. x Econ. Dev. x CSR Report	3.8967	1	3.8967	3.20	0.7430
Education	0.9079	1	0.9079	0.78	0.3883
Age	2.4089	1	2.4089	1.98	0.1602
Error	531.9847	437	1.2174		

Panel C: Planned Contrasts

H4 Hypothesized Contrasts	**df**	**F-Value**	**p-value**
H4: Across country conditions, CSR Perceptions are highest in developed/developing countries with low tax management, lower in developed countries with high tax management, and lowest in developing countries with high tax management (contrast weights: 1.5, 1.5, -1, -2)	1	4.62	**0.0321**
H5 Hypothesized Contrasts			
H5: Across disclosure conditions, CSR Perceptions are highest when CSR Report is present and tax management is low, lower when CSR Report is present and tax management is high and when CSR Report is absent and tax management is low, and lowest when CSR Report is absent and tax management is high (contrast weights: 1.5, 1, 1, -3.5)	1	42.38	**<.0001**

Reported p-values are two-tailed.

TABLE 4
Descriptive Statistics and ANCOVA Results for Purchasing Intentions
Hypotheses 2, 4, and 5 Analysis

Panel A: Descriptive Statistics

Purchasing Intentions when CSR Disclosure is NOT Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	55	65.0881	22.6791	60	66.9456	21.0078
High Tax Management	60	62.7679	21.8729	61	65.4643	23.7603

Purchasing Intentions when CSR Disclosure is Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	45	67.0277	22.7229	52	70.8633	19.8429
High Tax Management	58	71.5325	26.3111	54	69.6943	24.1214

Panel B: ANCOVA Results for Purchasing Intentions

Source of Variation	**SS**	**df**	**MS**	**F-Stat**	**p-value**
Corrected Model	11072.7996	9	1230.3111	2.45	**0.0101**
Tax Management	1.4832	1	1.4832	0.00	0.9567
Economic Development	286.5147	1	286.5147	0.57	0.4509
CSR Report	2427.8028	1	2427.8028	4.82	**0.0286**
Tax Man. x Econ Dev.	158.8100	1	158.8100	0.32	0.5746
Tax Man. x CSR Report	343.7225	1	343.7225	0.68	0.4090
Econ Dev. x CSR Report	44.6554	1	44.6554	0.09	0.7659
Tax Man. x Econ Dev. x CSR Report	289.3191	1	289.3191	0.57	0.4487
Investor Sample	810.9325	1	810.9325	1.61	0.2050
Age	7390.2639	1	7390.2639	14.69	**<.0001**
Error	217378.9289	432	503.1920		

Panel C: Planned Contrasts

Hypothesized Contrasts	**df**	**F-Value**	**p-value**
H4: Across country conditions, purchase intentions are highest in developed/developing countries with low tax management lower in developed countries with high tax management and lowest in developing countries with high tax management (contrast weights: 1.5, 1.5, -1, -2)	1	0.06	0.8062
H5: Across disclosure conditions, purchase intentions are highest when CSR Report is present and tax management is low, lower when CSR Report is present and tax management is high and when CSR Report is absent and tax management is low, and lowest when CSR Report is absent and tax management is high (contrast weights: 1.5, 1, 1, -3.5)	1	2.50	0.1146

TABLE 5
Descriptive Statistics and ANCOVA Results for Willingness to Pay
Hypotheses 2, 4, and 5 Analysis

Panel A: Descriptive Statistics

Willingness to Pay when CSR Disclosure is NOT Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	55	83.3977	22.9293	60	86.5166	22.0780
High Tax Management	60	85.4350	21.8186	61	83.7344	21.6911

Willingness to Pay when CSR Disclosure is Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	45	90.5857	23.5136	52	79.5392	22.6012
High Tax Management	58	88.1121	26.4567	54	92.4537	21.1594

Panel B: ANCOVA Results for Willingness to Pay

Source of Variation	SS	df	MS	F-Stat	p-value
Corrected Model	11222.3624	9	1246.9292	2.44	**0.0102**
Tax Management	648.5491	1	648.5491	1.27	0.2604
Economic Development	188.4675	1	188.4675	0.37	0.5438
CSR Report	929.8120	1	929.8120	1.82	0.1779
Tax Man. x Econ Dev.	766.7053	1	766.7053	1.50	0.2211
Tax Man. x CSR Report	854.0310	1	854.0310	1.67	0.1966
Econ Dev. x CSR Report	455.6109	1	455.6109	0.89	0.3454
Tax Man. x Econ Dev. x CSR Report	2813.6334	1	2813.6334	5.51	**0.0194**
Investor Sample	4136.8311	1	4136.8311	8.00	**0.0046**
Age	0.8024	1	0.8024	0.00	0.9684
Error	223163.1141	437	510.6707		

Panel C: Planned Contrasts

Hypothesized Contrasts	df	F-Value	p-value
H4: Across country conditions, willingness to pay is highest in developed/developing countries with low tax management lower in developed countries with high tax management and lowest in developing countries with high tax management (contrast weights: 1.5, 1.5, -1, -2)	1	1.13	0.2879
H5: Across disclosure conditions, willingness to pay is highest when CSR Report is present and tax management is low, lower when CSR Report is present and tax management is high and when CSR Report is absent and tax management is low, and lowest when CSR Report is absent and tax management is high (contrast weights: 1.5, 1, 1, -3.5)	1	0.73	0.3919

Reported p-values are two-tailed.

TABLE 6
Descriptive Statistics and ANCOVA Results for Investing Intentions
Hypotheses 3, 4, and 5 Analysis

Panel A: Descriptive Statistics

Investing Intentions when CSR Disclosure is NOT Provided

	Developing			**Developed**		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	26	59.9779	24.1615	31	59.8339	21.9671
High Tax Management	26	55.9199	21.0854	27	62.9834	22.9019

Investing Intentions when CSR Disclosure is Provided

	Developing			**Developed**		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	20	71.4135	17.2212	19	56.3990	23.3201
High Tax Management	30	58.3678	27.0068	27	61.3840	24.2685

Panel B: ANCOVA Results for Investing Intentions

Source of Variation	**SS**	**df**	**MS**	**F-Stat**	**p-value**
Corrected Model	5019.5552	8	627.4444	1.21	0.2933
Tax Management	251.9976	1	251.9976	0.49	0.4861
Economic Development	80.2153	1	80.2153	0.16	0.6942
CSR Report	245.1047	1	245.1047	0.47	0.4921
Tax Man. x Econ Dev.	1993.5022	1	1993.5022	3.85	**0.0511**
Tax Man. x CSR Report	157.2177	1	157.2177	0.30	0.5821
Econ Dev. x CSR Report	1119.9622	1	1119.9622	2.16	0.1428
Tax Man. x Econ Dev. x CSR Report	363.8887	1	363.8872	0.70	0.4027
Age	1543.5095	1	1543.5095	2.98	**0.0857**
Error	101936.9933	197	517.4467		

Panel C: Planned Contrasts

Hypothesized Contrasts	**df**	**F-Value**	**p-value**
H4: Across country conditions, investing intentions are highest in developed/developing countries with low tax management, lower in developed countries with high tax management, and lowest in developing countries with high tax management (contrast weights: 1.5, 1.5, -1, -2)	1	0.95	0.3306
H5: Across disclosure conditions, investing intentions are highest when CSR Report is present and tax management is low, lower when CSR Report is present and tax management is high and when CSR Report is absent and tax management is low, and lowest when CSR Report is absent and tax management is high (contrast weights: 1.5, 1, 1, -3.5)	1	0.54	0.4626

Reported p-values are two-tailed.

TABLE 7
Descriptive Statistics and ANCOVA Results for Valuation of Stock
Hypotheses 3, 4, and 5 Analysis

Panel A: Descriptive Statistics

Stock Valuation when CSR Disclosure is NOT Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	26	40.6591	9.5718	31	38.0253	12.1797
High Tax Management	26	40.5201	12.8345	27	39.6986	9.6628

Stock Valuation when CSR Disclosure is Provided

	Developing			Developed		
	n	**LS Mean**	**S.D.**	**n**	**LS Mean**	**S.D.**
Low Tax Management	20	41.4472	8.3746	19	36.3080	7.9348
High Tax Management	30	39.9995	14.0192	27	42.0333	10.3267

Panel B: ANCOVA Results for Valuation of Stock

Source of Variation	SS	df	MS	F-Stat	p-value
Corrected Model	658.4527	8	82.3066	0.71	0.6799
Tax Management	105.8330	1	105.8330	0.92	0.3395
Economic Development	133.8769	1	133.8769	1.16	0.2828
CSR Report	2.4477	1	2.4477	0.02	0.8844
Tax Man. x Econ Dev.	252.6352	1	252.6352	2.19	0.1406
Tax Man. x CSR Report	23.1194	1	23.1194	0.20	0.6550
Econ Dev. x CSR Report	0.3842	1	0.3842	0.00	0.9541
Tax Man. x Econ Dev. x CSR Report	89.2873	1	89.2873	0.77	0.3802
Age	95.9608	1	95.9608	0.83	0.3630
Error	22741.5133	197	115.4392		

Panel C: Planned Contrasts

Hypothesized Contrasts	df	F-Value	p-value
H4: Across country conditions, stock price valuations are highest in developed/developing countries with low tax management, lower in developed countries with high tax management, and lowest in developing countries with high tax management (contrast weights: 1.5, 1.5, -1, -2)	1	0.80	0.3725
H5: Across disclosure conditions, stock price valuation is highest when CSR Report is present and tax management is low, lower when CSR Report is present and tax management is high and when CSR Report is absent and tax management is low, and lowest when CSR Report is absent and tax management is high (contrast weights: 1.5, 1, 1, -3.5)	1	0.13	0.7179

Reported p-values are two-tailed.

APPENDIX

Excerpts from the instrument:

BACKGROUND INFORMATION

INDUSTRY OVERVIEW

XYZ, Inc. is an American-based, publicly traded company that manufactures and sells athletic gear and footwear across the globe. Because the industry is highly concentrated, with a few major companies holding a large share of the market, athletic-wear manufacturers are very competitive. Consumer demand for affordable athletic wear has resulted in moderate performance for the industry as a whole.

COMPANY OVERVIEW

XYZ is not one of the most recognized brands in the industry (compared to brands such as Nike or Adidas), but their products are generally thought to be as comfortable and durable as those made by the more recognized brands. The company sells their gear and footwear at a moderate price, generally 10-15% less than products sold by their big-name competitors. This positioning as a lower-cost, similar-quality brand is reflected in the company's commitment to cut costs and to only incur expenses associated with its key operations and core values.

Financial News

During its 10 years in business, XYZ, Inc. has paid $8.6 million in corporate tax to **the U.K.**

The American athletic gear company is valued at $15 billion and has generated more than $2 billion of sales in **the U.K.** since 2008.

It has paid **15%** in corporate tax.

In comparison, the rest of the athletic-wear industry paid an average of **25%** of profits in corporate tax.

XYZ, Inc. Press Release

At XYZ, Inc., we value our commitment to both our shareholders and the communities in which we operate. Following is a brief overview of our social, economic, and environmental impacts over the last 10 years.

Charitable Giving: We believe the local communities in which we operate should be supported through charitable giving. As such, we have dedicated a 2% of all profits to donations to local schools and hospitals in **the U.K.**

Sustainability: We share our stakeholders' belief that a sustainable future is possible. We continue to improve our product processes to reduce our carbon footprint, and we adhere to the highest industry environmental standards. As such, we have instituted a recycling program in our **U.K.** operations to better support the environment.

Employee Safety: We believe training is a fundamental component of employee safety. We have maintained a comprehensive employee safety policy and training program in **the U.K.** that industry peers have praised and replicated in their own facilities.

Supply Chain: We continue to be a leader in combating labor rights abuses in our **U.K.** supply chains, and we work diligently to ensure all foreign workers within our supply chain are paid a livable wage and given access to affordable housing and health care. We have instituted a third-party due diligence program that has been successful in managing risks in our supply chain related to anti-bribery and corruption, trade compliance, and child labor.