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It's For the Better Sake of Society

Why Don't Swedish MNCs Disclose a CbC Report on Taxes?

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Abstract: Using a multiple case study and theories on voluntary disclosures, this thesis aims to investigate why Swedish multinational corporations (MNCs) listed on Large Cap at Nasdaq OMX Stockholm do not voluntarily disclose a country-by-country (CbC) report on taxes and what the inherent risks in their reasoning are. Based on an abductive research approach, the study firstly finds that the decision to not disclose a CbC report can be explained by proprietary cost theory, institutional theory and partly by legitimacy theory. More specifically, the MNCs refrain from a CbC disclosure since the perceived costs of a disclosure outweigh the benefits, since there is no standard, since few other MNCs currently disclose and since the MNCs perceive themselves to achieve legitimacy through other measures. Secondly, using stakeholder theory and a wider scope of legitimacy theory, the study further finds that the inherent risks in the MNCs' reasoning relate to an inappropriate prioritization of the prominent stakeholders, a too narrow perception of the relevant stakeholders and a too short-sighted view on legitimacy. Finally, the thesis finds that a disclosure of a CbC report, i.e. a proactive approach to manage legitimacy, might not be necessary nor possible for all MNCs.

Key Words: Voluntary Country-by-Country Tax Reporting, Proprietary Cost Theory, Institutional Theory, Legitimacy Theory, Stakeholder Theory

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1 Introduction

In recent years there has been an increased number of calls for multinational corporations (MNCs) to pay their "fair share of taxes" and to include tax as a parameter within their corporate social responsibility (CSR) practices (e.g. Christensen & Murphy, 2004; Jenkins & Newell, 2013). This trend is founded in the belief that MNCs' tax payments constitute a vital element for the well-being of people around the world and has, as with any other CSR question, put pressure on MNCs to show the world that they are "good corporate citizens".

The pressure to increase tax transparency comes from several different actors in society, such as non-governmental organizations (NGOs), media and investors, and one of the currently most debated transparency measures is a disclosure presenting tax payments on a country-by-country basis (e.g. Eirefelt, 2015a; Eirefelt, 2015c), namely a CbC report. NGOs, for example, argue that such a report would help to decrease poverty in the world by revealing tax avoiders, in their eyes "bad corporate citizens" (e.g. Swedwatch, 2013; ActionAid Sverige, 2013). The interest for CbC reporting has also increased among governmental bodies, which is evident given the OECD's project on Base Erosion Profit Shifting (BEPS) that will force the largest MNCs to send a CbC report to the tax authorities. The BEPS project does, however, not seem to be enough to show good corporate citizenship since large Swedish MNCs still are receiving inquiries to voluntarily report taxes on a country-by-country basis.

Voluntary disclosures constitute a common tool used by corporations to communicate how they perform within different dimensions of CSR and are, when used for this purpose, often referred to as voluntary *social* disclosures. Many scholars have researched the extent and nature of voluntary social disclosures, but their studies have often been focused on more traditional areas of CSR, such as the environment (e.g. Cormier et al., 2005). These studies have moreover often tried to explain the existence of voluntary social disclosures using different factors, such as size and industry (e.g. Patten, 1991). There is, however, a lack of research when it comes to voluntary social disclosures on tax and more specifically on how MNCs reason in their disclosure decision. This is surprising considering the increased recognition of tax as a parameter within CSR, the debate on tax transparency and the fact that so few MNCs currently disclose a CbC report.

Previous scholars have often used different theoretical concepts, such as legitimacy theory and institutional theory, to derive factors that explain the existence of voluntary social disclosures (e.g. Cormier et al., 2005). There is, however, no comprehensive theoretical framework nor any consensus around which specific theories that are the most appropriate to use for research on voluntary social disclosures (Adams, 2002). Most scholars rather suggest that a mix of theories should be applied since the theories in many instances complement each other (e.g. Cormier et al., 2005). Given the concepts of proprietary cost theory, institutional theory, legitimacy theory and stakeholder theory, this thesis thus aims to answer the following research question:

Why do not Swedish MNCs listed on Large Cap at Nasdaq OMX Stockholm voluntarily disclose a CbC report on taxes, and what are the inherent risks in their reasoning?

Although CbC reporting on taxes is a highly debated question, a CbC report constitutes a voluntary disclosure with no agreement nor any standard on which specific taxes to present, e.g. corporate tax, VAT and/or payroll tax, with no agreement on how it should be presented, e.g. if it should be presented in relation to sales and/or profit before taxes, and with no agreement on where it should be presented, e.g. in the annual report and/or the sustainability report. This study has thus, with the exception that a CbC report will imply a public disclosure of corporate tax on a country-by-country basis, kept the specific definition of a CbC report open. Hence, from now on "CbC report", "CbC reporting" and "CbC disclosure" will refer to this open definition of tax reporting on a country-by-country basis. In terms of scope, this thesis further delimits itself from specific industry agreements and requirements on CbC reporting.

The thesis aims to answer the abovementioned research question using a multiple case study of four Swedish MNCs listed on Large Cap at Nasdaq OMX Stockholm, with additional data collected from consultants, NGOs, media and investors. More specifically, the thesis is based on an abductive research approach where the data collection and the development of theory have been conducted simultaneously. The empirical data consists of both primary and secondary data, where the primary data encompasses 20 in-depth semi-structured interviews[1] and two email correspondences. The data analysis has further, with the use of coding, aimed to find cross-case patterns in order to identify within-group similarities coupled with intergroup differences based on dimensions related to the research question.

The theoretical concepts used to understand and explain the absence of CbC reports as well as the inherent risks in the MNCs' reasoning are, as previously mentioned, proprietary cost theory, institutional theory, legitimacy theory and stakeholder theory. Proprietary cost theory belongs to economic theories on voluntary disclosures and claims that the probability of disclosing voluntary information is negatively correlated with the costs of the disclosure and positively correlated with the benefits (Pistoni & Songini, 2013). Institutional theory, on the other hand, belongs to social and political theories and states that a corporation's choice to disclose voluntary information can be explained by the disclosures of other actors, past routines, regulations, laws and customs (Prencipe, 2004). Legitimacy theory also belongs to the social and political theories and claims that a voluntary disclosure can be explained with a corporation's need to be viewed as legitimate (Pistoni & Songini, 2013). Finally, stakeholder theory extends legitimacy theory and explains a voluntary disclosure through the needs of specific stakeholder groups (Deegan, 2002).

The results of the study show that the MNCs' decision to not voluntarily disclose a CbC report can be explained by proprietary cost theory, institutional theory and partly by legitimacy theory. More specifically, the MNCs do not disclose a CbC report since they perceive more costs than benefits with such a disclosure, since there is no standard, since few other MNCs currently disclose and finally since they believe that they are achieving legitimacy in other ways. Further, the results of the study also show that there are inherent

[1] Excluding the interviews with representatives from the Swedish Tax Agency and the Swedish Tax Committee, which have served as valuable background knowledge for the researchers on the legal and governmental aspects of a CbC report but which have been deemed as irrelevant in relation to the specific research question.

risks in the MNCs' reasoning on a CbC disclosure that relate to an inappropriate prioritization of the prominent stakeholders, a too narrow definition of the relevant stakeholders and a too short-sighted view on legitimacy.

The remainder of the thesis is dispositioned as follows. Section 2 presents the theoretical concepts, whereas Section 3 describes previous literature and also specifies how this thesis relates to previous studies. Section 4 further provides an in-depth description of the methodology, while Section 5 presents the empirical findings. Section 6 then continues with an analysis of the empirical findings, while Section 7 presents the conclusions and contributions of this study, and further also discusses the limitations and potential areas for future research.

2 Theoretical Background

This thesis mainly rests upon theories used within research on voluntary disclosures but can also, given the specific nature of a social disclosure, be framed within theories of CSR.

2.1 Corporate Social Responsibility

Friedman (1962) claims that "there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud" (p. 133). Bowen (1953), on the other hand, argues that CSR and the obligations of businessmen is "to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6).

The reasoning of Bowen (1953) is in line with McGuire's (1963) reasoning although the latter scholar is more specific as he claims that "the idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations" (p. 144). By recognizing ethical and philanthropic responsibilities, Carroll (1991) also claims that CSR goes beyond legal and economic responsibilities of a corporation and this definition further, based on Carroll (1999), appears to be the general definition of CSR in academic literature.

2.2 Voluntary Disclosures

Corporate disclosures constitute an important tool that managers can use to communicate with stakeholders and mitigate problems such as information asymmetry and agency conflicts (Healy & Palepu, 2001). In terms of theories on voluntary social disclosures, a common and recognised theoretical framework has not yet been developed (Cormier et al., 2005; Pistoni & Songini, 2013). Instead, there is a large amount of theories focusing on corporation-society information flows, which Gray et al. (1995) categorise into three main groups: (1) decision usefulness theories, (2) economic theories and (3) social and political theories.

Gray et al. (1995), however, dismiss decision usefulness theories as an approach to investigate voluntary *social* disclosures, with the main argument that "interest in CSR is not motivated predominantly by a concern with the needs, wants and whims of financial participants" (p. 51) and this is further elaborated by Pistoni and Songini (2013) who state that "other external drivers can impact on CSR disclosure" (p. 14). On the basis of *social* reporting Gray et al. (1995) also dismiss economic theories, which incorporates positive accounting theory and proprietary cost theory, due to the theories' underlying assumptions. More specifically, Gray et al. (1995) claim that economic theory fails to address CSR's fundamental desire to change current practices (e.g. injustices and information asymmetries) and further that the economic theory's assumption of short-term self-interest conflicts with the foundation of CSR.

This thesis is thus predominantly based on social and political theories, which Gray et al. (1995) refer to as the most "interesting and insightful theoretical perspectives" (p. 52) within CSR analysis. Although sub-theories within the social and political field can provide slightly different and useful insights, there is an overlap between a number of them (Deegan, 2002). Accordingly, this study is founded on a combination of three sub-theories within social and political theories, namely institutional theory, legitimacy theory and stakeholder theory.

In addition, the thesis also incorporates proprietary cost theory since this theory can explain a decision to voluntarily disclose segment reporting (Hayes & Lundholm, 1996; Prencipe, 2004), which a CbC report can be defined as. An inclusion of proprietary cost theory goes against Gray et al. (1995) who dismiss economic theories, but a mix of economic and social and political theories have been used by other scholars to explain voluntary disclosures (e.g. Cormier et al., 2005; Pistoni and Songini, 2013). Adams (2002) further states that there is a lack in explanatory power of separately existing social reporting theories and that there is a need for a more inclusive model to explain voluntary social reporting. Hence, this thesis uses the following theories: proprietary cost theory, institutional theory, legitimacy theory and stakeholder theory.

2.2.1 Proprietary Cost Theory

Proprietary cost theory focuses on the reasons why corporations would like to limit voluntary disclosures. Pistoni and Songini (2013) elaborates the concept of the theory by stating that the probability that a corporation will communicate information is negatively correlated with the costs of the disclosure and positively correlated with its benefits. In relation to proprietary cost theory and specifically segment reporting, Prencipe (2004) further argues that a voluntary disclosure is related to two types of costs: the costs of preparing and disseminating segment information, and the costs of revealing sensitive information to competitors and other parties with the ability to hurt the corporation.

2.2.2 Institutional Theory

The concept of institutional theory suggests that a voluntary corporate disclosure might become institutionalized and to some extent determine the choice of corporations (Larrinaga-Gonzales, 2007 in Pistoni & Songini, 2013). This process of organizational convergence, sometimes referred to as *isomorphism*, causes corporations to become increasingly similar in both their CSR practices and their disclosures (Holder-Webb et al., 2009). In relation to institutional theory, Cormier et al. (2005) also describe how corporations conform with *past routines* of disclosures and further also with *regulations, laws* and *customs*.

Institutional theory can, however, also be seen as a complement to both legitimacy and stakeholder theory, since it explains how corporations comprehend and respond to changing social and institutional pressures and expectations (Pistoni & Songini, 2013). One could further say that "while legitimacy theory is more useful for determining in the short term why a given organization is making particular CSR disclosure, institutional theory is more helpful in the explanation of why a given CSR disclosure practice becomes common in a particular context" (ibid, p. 13).

2.2.3 Legitimacy Theory

Legitimacy theory relies on the idea that there exist different contracts between the corporation and the society (Pistoni & Songini, 2013). In order to achieve and maintain legitimacy, the theory states that the corporation must fulfill its *social contracts* and operate within the norms and expectations of the society. Pistoni and Songini (2013) further state that the existence of a corporation is threatened if the society feels that the corporation does not respect the social contract, and that a corporation in such a case might face issues with customer losses, interruptions of labor and capital supplies, and pressures on regulatory bodies to formulate new laws and regulations. If a corporation wants to effectively manage its legitimacy and ensure that it is being viewed in a positive way by the public, it is however not enough to align its operations with society's expectations. It is also critical that the corporation presents and communicates that its operations are congruent with the values of society. (ibid)

Deegan (2002) further, by referring to Lindblom (1994), highlights legitimacy theory as a dynamic concept. More specifically, he claims that community expectations might change with the implication that what was once acceptable corporate behavior is no longer deemed as acceptable. In relation to this, Deegan (2002) also emphasizes that how a corporation's management reacts to perceived legitimacy gaps is dependent on the management's perception of how society, in terms of legitimacy, views the corporation's actions, i.e. whether the management perceives a legitimacy gap in the first place.

On the note of perceived legitimacy gaps, Deegan (2002) describes corporate disclosures as one of the main tools that management can use to influence external perceptions of their organisation. Pistoni and Songini (2013) further suggest that corporations either could take a *proactive* or a *reactive approach* in their attempts to manage legitimacy. In the reactive approach, corporations publish voluntary information in reaction to an event or a crisis facing either the corporation or the industry. In the proactive approach, however, corporations use disclosures as a mean to prevent legitimacy concerns from arising in the first place. (ibid)

While Pistoni and Songini's (2013) concept of a reactive or a proactive approach relates to *when* a corporation can manage legitimacy, Dowling and Pfeffer (1975) and Lindblom (1994) offer strategies for *how* a corporation can manage legitimacy using external disclosures. Lindblom's (1994) four courses of actions have some overlap with Dowling and Pfeffer's strategies (1994) and suggest that a corporation can:

> (1) educate and inform its "relevant publics" about (actual) changes in the organisation's performance and activities;
>
> (2) change the perceptions of the "relevant" publics - but not change its actual behaviour;
>
> (3) manipulate perception by deflecting attention from the issue of concern to other related issues through an appeal to, for example, emotive symbols; or
>
> (4) change external expectations of its performance. (Deegan, 2002)

2.2.4 Stakeholder Theory

Stakeholder theory suggests that corporations disclose voluntary information with the aim of being viewed as legitimate by key stakeholders (Pistoni & Songini, 2013). In contrast to legitimacy theory, which refers to the expectations of society at large, stakeholder theory explicitly accepts that society is made up of various groups with unequal power and unequal ability to affect the corporation (Deegan, 2002).

2.2.4.1 Identification of Stakeholders

Broad definitions of stakeholders are based on the empirical reality that a corporation can be vitally affected by, or can vitally affect, almost anyone, and Freeman's (1984) definition, "A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives" (p. 46) is the most classic one, and only excludes those who have no power, claim nor any relation (Mitchell et al., 1997).

Narrow definitions, on the other hand, are linked to the practical reality with limited resources, limited time and attention, and limited patience of managers for dealing with external constraints (Mitchell et al., 1997). Mitchell et al. (1997) further describe how scholars within the narrow perspective generally define relevant groups in terms of legitimacy and their direct relevance to the firm's core economic interests based on, for example, firm survival, exchange relationships and risk.

Using a combination of Freeman's (1984) broad definition of stakeholders and the narrow perspective's focus on legitimacy, Mitchell et al. (1997) suggest three key attributes that characterize different types of stakeholders: (a) *power* to influence the corporation; (b) *legitimacy* in the relationship to the corporation; and (c) *urgency* of the claim on the corporation. By referring to Clarkson's (1994) discussion of involuntary stakeholders, Mitchell et al. (1997) also claim that potential relationships can be as relevant as actual ones.

Freeman (1984) further discuss how individual stakeholders can form coalitions to help or oppose a corporation on a particular issue. Coalitions are also discussed in relation to network theory by Rowely (1997) who claims that theories of *dyadic* relationships are not sufficient for understanding stakeholder influence and the corporation's response. Using social *network* constructs (density and centrality), Rowely (1997) instead moves beyond analysis of dyadic ties and also considers structural influences and the impact of stakeholders who do not have direct relationships with the focal corporation but who nevertheless affect how the corporation behaves. As with individual stakeholders, Rowely (1997) recognizes the difficulty in defining the relevant network but refers to Scott (1991) and Wasserman & Faust (1994) when he discusses the *snowball technique*[2] as a practical and useful approach for accurately defining the network boundaries.

[2] The first step in the snowball technique is to identify a core subset of actors within the network and then via interviews ask informants from the initial group of organizations to nominate other actors (or stakeholders) to whom their firms are linked through specified relationships. The next step is then to interview the informants from the group of nominated organizations, who are also asked to nominate relevant actors. (Rowely, 1997)

2.2.4.2 Prioritization

Besides functioning as a tool for identification, Mitchell et al.'s (1997) framework can also be used to analyze prioritization of stakeholders. More specifically, based on possession or attributed possession of one, two or all three of the attributes, Mitchell et al. (1997) present seven classes of stakeholders where the *dormant stakeholders*, due to lack of legitimacy and urgency, are considered least important and where the *definitive stakeholders,* with all three attributes, should be the most prioritized stakeholders for a corporation.

3 Previous Literature

This thesis can mainly be related to previous literature within voluntary social disclosures. However, given the specific nature of a CbC report, the thesis can also be related to literature within voluntary (non-social) segment disclosures.

3.1 Voluntary Social Disclosures

Previous literature within the area of voluntary social disclosures has often been based on different theoretical concepts and focused on underlying factors affecting the nature and extent of voluntary disclosures. Patten (1991), for example, researched whether voluntary social disclosures in annual reports are related to either firm profitability or public pressure. Based on legitimacy theory, Patten (1991) hypothesizes that social disclosures should be more closely related to public pressure which he, using regression analysis with size and industry as proxies for public pressure, also is able to confirm. More specifically, Patten (1991) finds that larger corporations and corporations in sensitive industries (e.g. petroleum-, chemical- and forestry industries) have a higher amount of voluntary social disclosures in their annual reports.

Another study that uses legitimacy theory to explain voluntary social disclosures is Deegan et al. (2000) which, using a quasi-experimental design on annual reports, investigates how five different chemical, oil and mine incidents during the 1980s and 1990s affected the disclosure practices of corporations belonging to the same industries. Consistent with the ideas of legitimacy theory, Deegan et al. (2000) find that corporations operating in industries affected by major social incidents choose to provide more voluntary social disclosures in the years after an incident. The results support the idea that corporations use disclosures to influence society's perception of their operations and that voluntary social disclosures have a strategic nature (ibid). Brown and Deegan (1998) also use legitimacy theory (and media agenda setting theory[3]) in order to investigate if there is a relationship between media coverage on various industries' environmental effects and the degree of voluntary environmental disclosures made by corporations within those industries. Using Spearman rank-order correlation tests, Brown and Deegan (1998) find that for most industries, a higher level of media attention (determined by a review of print media newspapers and journals) is significantly associated with a higher degree of environmental disclosures.

Roberts (1992), on the other hand, focuses on stakeholder theory in relation to voluntary social disclosures. More specifically, using regression analysis, Roberts (1992) empirically tests a theoretical framework for prediction of corporate social activity. The framework, developed by Ullman (1985), is founded on the stakeholder concept formalized by Freeman (1984) and when testing it, Roberts (1992) finds that overall stakeholder power is positively related to the level of voluntary social disclosures.

[3] Media agenda setting theory states that there is a relationship between the emphasis given by media to a certain topic and the degree of salience that the topic has among the general public (Brown & Deegan, 1998).

Cormier et al. (2005) instead use a multi-theoretical approach, incorporating economic agency theory, legitimacy theory and institutional theory, to investigate the determinants of voluntary corporate environmental disclosures. More specifically, based on the theories, Cormier et al. (2005) test the following hypotheses:

> *H1:* The level of information costs to be incurred by a firm's shareholders enhances the extent of its environmental disclosure quality.
>
> *H2:* A firm's good financial condition enhances the extent of its environmental disclosure quality.
>
> *H3:* The extent of public pressures to which a firm is subjected enhances the extent of its environmental quality.
>
> *H4:* There is imitation i.e. convergence in corporate environmental disclosure quality over time.
>
> *H5:* Corporate environmental disclosure quality in any given year is a routine extension from prior period's environmental disclosure quality.

The first two hypotheses, *H1* and *H2*, are founded in economic agency theory where the former hypothesis relates to a corporation's incentive to minimize the cost of capital whereas the latter one relates to a corporation's ability to manage the costs of revealing proprietary information. Hypothesis *H3*, on the other hand, is based on legitimacy theory and the idea that corporations use environmental disclosures as a response to public pressure. Finally, *H4* and *H5* are founded in institutional theory and incorporate the idea that a corporation is influenced by other corporations and its past reporting practices when deciding on voluntary environmental disclosures.

Using regression analysis and a sample consisting of large German non-financial firms (337 firm-year observations during 1992-1998) Cormier et al. (2005) find evidence supporting all hypotheses, except for *H2*. More specifically, the results show that risk, ownership, fixed asset age, firm size, routine and news coverage determine the level of environmental disclosures. Further, the study also finds that corporations' environmental disclosures exhibit within-industry imitation tendencies and convergence over time. Based on their findings, Cormier et al. (2005) conclude that voluntary environmental disclosures are multi-dimensional and driven by complementary forces.

In contrast to the abovementioned scholars, Adams (2002) uses a qualitative approach to investigate internal contextual factors influencing voluntary social reporting. Adams (2002) motivates her research with the claim that previous scholars have been too focused on the impact of corporate characteristics (e.g. size and industry) and general contextual factors (e.g. the social, political and economic context). In order to investigate internal contextual factors, Adams (2002) uses a multiple case study comprised of seven large British and German MNCs active within pharmaceutical and chemical industries. The case study is built on interviews concerning eleven different themes, e.g. stakeholder involvement, perceived benefits of ethical reporting, perceived costs of ethical reporting and extent to which the company studies other companies' ethical reports and refers to guidelines on environmental reporting.

Adams (2002) finds that a number of internal contextual factors affect the extensiveness, quality, quantity and completeness of reporting. More specifically, key internal contextual variables identified are: aspects of the reporting process, attitudes to reporting, its impact, legislation and audit. Further, Adams (2002) finds that the process of reporting and decision-making depends on country of origin, corporate size and corporate culture, which he then links to degree of formality versus informality, departments involved and the extent of stakeholder engagement. Based on her findings, Adams (2002) extends prior literature and outlines a model that besides corporate characteristics (e.g. size and industry) and general contextual factors (e.g. social context and media pressure) also incorporates internal contextual factors (e.g. stakeholder involvement and management attitude) as explanatory factors for voluntary social disclosures.

3.2 Voluntary Segment Reporting

Previous literature within voluntary segment reporting has focused on factors limiting the willingness to provide the financial market with voluntary segment reporting. Prencipe (2004), for example, uses proprietary cost theory to investigate determinants of voluntary segment reporting. On the basis of proprietary cost theory, Prencipe (2004) develops three different hypotheses explaining the extent of voluntary segment reporting:

> *H1:* The extent of voluntary segment disclosure is higher when the segments coincide with legally identifiable sub-groups of companies.
>
> *H2:* The extent of voluntary segment disclosure is negatively correlated to the company's growth rate.
>
> *H3:* The extent of voluntary segment disclosure is positively correlated to the company's "listing status age".

The first hypothesis, *H1*, is based on the underlying logic that the costs of preparing a segment report are higher when the segments do not correspond with the way in which the corporation is internally organized for management purposes. The second hypothesis, *H2*, is founded on the belief that the competitive costs from disclosing segment information are higher for growing corporations, since a segment report might reveal business opportunities to competitors. The final hypothesis, *H3*, is based on the idea that the costs of preparing voluntary information are higher for newly listed corporations since they, in contrast to older listed corporations, are not used to providing this type of information. Using regression analysis and a sample of 64 Italian-listed corporations, Prencipe (2004) finds evidence for *H1* and *H3*, but not for *H2*. More specifically, Prencipe (2004) concludes that proprietary costs are particularly relevant for corporations and limit the incentive for corporations to voluntarily report segment information.

Hayes & Lundholm (1996) also investigate decisions related to segmental disclosure practices. However, in contrast to Prencipe (2004), they adopt a purely theoretical approach with an analytical model. More specifically, Hayes and Lundholm (1996) analyse how corporations choose an appropriate level of aggregation in segmental disclosures given that such disclosures are used by both competitors and the capital market. The authors conclude that, in highly competitive markets, proprietary costs induce corporations with differently performing business segments to only report in one segment to avoid giving away potentially harmful information.

3.3 This Thesis in Relation to Previous Literature

Previous literature within voluntary social disclosures and voluntary segment reporting relates and provides valuable knowledge to this thesis by creating an understanding for different factors influencing the nature and extent of voluntary disclosures. Further, the previous literature also applies and finds evidence for the explanatory power of the theoretical concepts used in this thesis (e.g. Roberts, 1992; Prencipe, 2004; Cormier et al., 2005). However, while most of the earlier studies have taken a quantitative approach to explain the amount and extent of *existing* voluntary disclosures, this study adopts a qualitative method to explain a *non-existing* disclosure. In this sense, this thesis coincides with Adams (2002) who also adopts a qualitative method and a multiple case study to achieve a more in-depth understanding of the decision to disclose voluntarily. This thesis does, however, differ from previous research since it besides explaining a non-existing disclosure also, using the theoretical concepts, investigates the risks inherent in the corporations' reasoning.

4 Method

This thesis is founded in an abductive research approach and uses a multiple case study of four Swedish MNCs, and interviews with other relevant actors, to answer the previously specified research question.

4.1 Research Design

4.1.1 Empirical Method

On the basis of the research question, this thesis has adopted an explanatory approach. This is supported by Harder (2010) who claims that an explanatory approach is suitable when one not only seeks to explore and describe a phenomena, but also to explain causal relationships. Research studies denoted by the term "explanatory" are traditionally quantitative studies, but a growing number of researchers have started to recognise that quantitative methods not always are the best ways of reaching explanatory conclusions and that qualitative methods can be used as well (Maxwell & Mittapalli, 2008).

Previous scholars within the area of voluntary corporate disclosures have often applied quantitative methods, with the aim of identifying the determinants of voluntary reporting (e.g. Patten, 1991; Roberts, 1992; Deegan et al., 2000). The aim of these studies have however been to examine the volume and/or the format of existing voluntary disclosures, while this thesis has focused on a non-disclosure. Although a non-disclosure per se does not speak in favor of a qualitative method there are reasons for why a quantitative method, as used by previous scholars, has not been suitable for the purpose of this thesis. First of all, the number of MNCs that currently disclose a CbC report in relation to the number of MNCs that do not disclose a CbC report is too small[4] to be able to draw any insightful conclusions with a regression analysis. A survey to non-disclosing MNCs has further not been deemed as suitable due to the sensitive and complex nature of tax, which requires room for elaborations and flexibility in order to gain an in-depth understanding. Hence, this thesis has used a qualitative method. A qualitative method has further been seen as appropriate since tax in relation to CSR currently is an under-researched area (Preuss, 2010) that would benefit from a methodology with inherent explorative characteristics. Adams (2002) strengthens this belief by claiming that a qualitative method[5] gives an insight to the motivations of corporate reporting which cannot be achieved by studying the extent and nature of reporting in relation to a selection of specified variables alone, i.e. by using a quantitative method.

A case study approach has further been adopted since it allows for interaction between the phenomenon researched and its context (Dubois & Gadde, 2002). This aspect has been deemed as particularly important in the research design since a MNC's non-disclosure might be related to a number of contextual factors, thus requiring a holistic perspective. Yin (2003) supports this by arguing that a case study design is an

[4] Only 3 out of the 100 largest publicly listed corporations have CbC reporting on tax, more specifically Telia Sonera, Nordea and Nordnet (Eirefelt, 2015a).

[5] Adams (2002) uses a multiple case study.

appropriate methodology in cases when the focus is explanatory and the aim is to answer "how" and "why" questions.

This thesis has further applied a multiple case study approach since analytical conclusions independently arising from several cases are more powerful than those coming from a single case (Yin, 2003). The use of several cases further avoids a potential bias from one specific case and thus increases generalizability of the findings (ibid). Due to the sensitive nature of tax[6], the case companies have further been complemented with interviews with consultants since they, through their close interaction with MNCs, are able to provide a third-party view on how MNCs reason in the decision to not disclose a CbC report. In order to gain a holistic view of the MNCs' perspective and further to answer the second part of the research question, interviews have also been conducted with a number of other actors. This approach is supported Harder (2010) who claims that all possible sources of data that shed light on the topic of research should be considered.

4.1.2 Research Approach

The thesis has further adopted an abductive research approach. Hence, the thesis has not initially been founded in a theoretical framework (deductive approach) nor has it aimed to develop one from observations (inductive approach), but rather the emphasis has been to simultaneously collect data and build theory. This type of abductive approach can be classified as *systematic combining* and implies a back and forth direction (referred to as *matching*) between the theory and the empirical study, which is fruitful when the objective is to discover things (Dubois & Gadde, 2002). In line with Eisenhardt's (1989) claim, the overlapping data collection and data analysis have enabled this thesis with flexible data collection which has helped to better ground the theory and to provide new theoretical insights.

More specifically, the first interviews in this thesis were not founded in any specific theory. However, based on the initial interviews surrounding tax within CSR and tax transparency in general, the question of CbC reporting and stakeholders became very evident and in turn led to the incorporation of legitimacy theory and stakeholder theory in the theoretical framework, and further also led to an alteration of upcoming interview questions. Later empirical findings, which indicated the importance of costs and competitors, then implied the incorporation of proprietary cost theory and institutional theory in the theoretical framework. Besides a continuous development of the theoretical framework, the abductive research approach has also been evident in the data collection in the sense that theory and other interviewees have raised the need of adding and removing interviewees and secondary data.

[6] Several MNCs were contacted with requests for interviews, but few were willing to meet and the ones participating were very on keen on knowing the use of the collected material.

4.1.3 Selection of Case Companies and Additional Interviewees

In this thesis, the population from which the case companies have been selected is MNCs listed on Large Cap at Nasdaq OMX Stockholm[7]. The four case companies have further been selected specifically with the aim of achieving a diverse sample to enhance generalizability. A non-random selection of case companies is supported by Yin (2003) and further also by Eisenhardt (1989) who claims that a random selection "neither is necessary, nor even preferable" (p. 537). The selection of case companies has been focused on industry belonging since it historically has been seen as a differentiating factor in relation to voluntary social disclosures (e.g. Patten, 1991).

In order to account for the small number of case companies and to increase generalizability, the data from the case companies has further been complemented with interview data from consultants who regularly work with Swedish MNCs in relation to tax. More specifically, transfer pricing consultants have been interviewed since transfer pricing is one of the areas within tax that is most connected to profit shifting (Bartelsman & Beetsma, 2003) and thus ultimately also to a CbC report. To avoid any potential bias, due to specific consultant and consultancy firm, two consultants have been interviewed from four separate consultancy firms.

To further shed light on the MNCs' decision to not disclose a CbC report and to answer the second part of the research question which relates to risks, the abovementioned data has been complemented with interviews of actors that the MNCs perceive as prominent stakeholders in relation to the question of increased tax transparency, namely NGOs, investors and media. In terms of NGOs, representatives from two NGOs that were specifically mentioned by the MNCs have been interviewed. Further, in relation to investors, representatives from three institutional investors with ethical considerations[8] have been interviewed. Regarding media, a reporter from Dagens Industri, Sweden's largest business paper, who has written three articles within the area of tax transparency during March 2015 has been interviewed. The data on the prominent stakeholders is by no means completely representative for each stakeholder group (i.e. NGOs, media and investors) but has, given the scope of this thesis, been deemed as a sufficient to answer the reseach question.

4.2 Data Collection

4.2.1 Primary Data

The primary source of data in this study has been based on 20 in-depth interviews[9] and two e-mail correspondences. The interviews have further been founded on questions that, in line with the abductive research approach, have been revised and improved as the process has continued and the issue of

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[7] The motivation for the population relates to the fact that size is a determining factor for voluntary social disclosures (Patten, 1991; Cormier et al., 2005), which would suggest that the largest corporations (e.g. MNCs listed on Large Cap) would be the first to disclose a CbC report.

[8] Investors with ethical considerations were mentioned as the most prominent investors during the interviews.

[9] Excluding the interviews with representatives from the Swedish Tax Agency and the Swedish Tax Committee, which have served as valuable background knowledge for the researchers on the legal and governmental aspects of a CbC report, but which have been deemed as irrelevant in relation to the specific research question.

investigation has materialized. Different questions have been used during the interviews with the MNCs, NGOs, media and investors, since the specific topic of interest has differed between these groups of actors. The questions have been open-ended and based on themes such as advantages and disadvantages of a CbC disclosure.

The interviews have further been semi-structured, a choice which has been based on two primary considerations. Firstly, semi-structured interviews are well-suited for exploration of the perceptions and opinions of interviewees in relation to topics, such as tax, that are sensitive and complex to discuss since it enables probing for more information and clarification of answers (Barriball & While, 1994). Secondly, varied professional, educational and personal histories of the sample group further preclude the use of a standardized interview schedule (ibid).

Interviews have been conducted until saturation has been reached, i.e. when marginal improvements from additional data have been small (Eisenhardt, 1989). The interviews have taken place between March and May 2015 and have lasted between 30 to 60 minutes, with an average duration of 50 minutes. Most of the interviews have been audio-recorded, with the exception of a few cases[10] when the interviewees have not been able to meet face-to-face. In these cases both researchers have taken detailed notes during the phone interviews in order to ensure that the interview would be interpreted correctly.

In relation to the MNCs, tax managers and CSR managers have been identified as relevant interviewees. More specifically, tax managers have been selected since their position implies a high influence on decision making processes related to tax. CSR managers have further been selected since a voluntary disclosure of a CbC report generally is associated with the view that tax is a topic that falls within the area of corporate responsibility. The tax managers and the CSR managers have been interviewed separately[11], with the aim of avoiding situations where one of the managers influences the other. The interviews have also, when possible[12], been conducted face-to-face to allow for a less formal and more open discussion, which has been deemed as necessary in relation to the sensitive nature of tax. The interviews with the other actors have been conducted with the same guiding principles as for the MNCs.

4.2.2 Secondary Data

In order to improve the research on the, by the MNCs perceived, prominent stakeholders, the previously mentioned primary data has been complemented with secondary material. More specifically, web pages and news articles have been used to retrieve a more holistic understanding of NGOs, investors and media. Since the MNCs operate in a global market place, both Swedish and international secondary data have been used.

[10] Interviews with the CSR manager at Consumer Goods Corp 1, the tax manager at Basic Materials Corp and Christine von Sydow (ActionAid Sverige) were not audio-recorded. Further, email correspondence was used in the cases of Carina Lundberg Markow (Folksam) and Malin Eirefelt (Dagens Industri).

[11] Except for Consumer Goods Corp 2, where the managers insisted on a joint interview.

[12] Interviews with the CSR manager at Consumer Goods Corp 1 and the tax manager at Basic Materials Corp were conducted by phone.

In addition, annual reports for the case companies have also been reviewed to understand their current reporting on tax. This use of secondary data, which in combination with the primary data implies a multiple data collection, is supported by Yin (2003) and also by Eisenhardt (1989) who argues that it allows for triangulation which provides stronger substantiation of contracts and hypotheses. Flick (2002) further states that a triangulation, i.e. a use of several qualitative methods, is essential in a study with complex fields of investigation.

4.3 Data Analysis

Analysis of the data has, given the abductive research approach, been performed continuously during the data collection and simultaneously with the development of the theoretical framework (Dubois & Gadde, 2002). The analysis has further been emphasized on finding cross-case patterns and, in line with what Eisenhardt (1989) describes as one tactic of finding patterns, the focus has been to identify within-group similarities coupled with intergroup differences on the basis of specific dimensions. Each interview has, however, been reviewed thoroughly before contrasting the findings to the other data material in order to allow for unique patterns of each interview to emerge before any generalizations have been made (Eisenhardt, 1989). The material (transcribed audio-records, in some cases detailed notes[13] and secondary material) has then been coded based on dimensions (e.g. inclusion in indices, create better understanding for taxes, unnecessary work, administrative burden, fear of increased tax audits) that have evolved during the data collection and the development of the theoretical framework. This type of coding aligns with grounded theory methods, that are abductive in their logic of reasoning (Charmaz, 2008), and more specifically to what is often referred to as *open coding* (Flick, 2011).

The dimensions have then further been refined in a manner similar to what Flick (2011) refers to as *axial coding*, where subdimensions (e.g. inclusion in indices, create better understanding for taxes, unnecessary work, administrative burden, fear of increased tax audits) have been related to overarching dimensions (e.g. advantages and disadvantages). Finally, the type of axial coding has been continued at a higher level of abstraction in line with *selective coding* (Flick, 2011) to find the story of the case, (e.g. disadvantages outweigh advantages) that answers the research question[14]. In line with Flick (2011) and Eisenhardt (1989), interpretation and analysis of the data material have perceeded until saturation has been reached. Besides allowing for insightful similarities and differences to be found, this analytical method has also revealed non-relevant data[15] in relation to the specific research question.

[13] In the cases when the interviewees were not able to meet face-to-face and the interviews where conducted by phone without audio-recording.

[14] The example provided in the text does not cover the full research question, but merely serves as a simplified example of the logic used in the analysis process.

[15] Using the coding, the interviews with the representatives from the Swedish Tax Agency and the Swedish Tax Committee were deemed as irrelevant in relation to the specific research question. The interviews have nonetheless functioned as important background knowledge for the researchers on the legal and governmental aspects of a CbC report.

4.4 Ethical Considerations

As Merriam (1988) claims, ethical considerations are critical during the data collection and publication of qualitative research. In relation to the data collection, all interviewees have been informed about the purpose and aim of the study and further also about the intent to record the interview. In relation to the publication, the interviewees have also been encouraged to proofread and discuss the sections in which they appear in order to ensure correct quoting and translation[16]. Due to the sensitive nature of tax, there has further been a mutual agreement with the MNC representatives that their identities will be kept confidential.

4.5 Limitations and Credibility

The methodological approach of this thesis comes with a number of limitations which should be carefully considered and critically discussed. A main issue related to qualitative case studies is the limited possibilities for scientific generalizations and external validity (Yin, 2003; Bryman, 2012). However, as discussed above, a multiple case study has been deemed as the most appropriate approach to answer the research question. The ethical considerations used in this thesis can also, as claimed by Alvesson (2011), be a disadvantage and imply a non-desired influence by the interviewees on the results. This issue is, however, believed to be limited given the thorough discussions that have been held with the interviewees before any alterations have been made.

In order to assess a qualitative study, scholars have further been critical towards the application of the otherwise established concepts of reliability and validity that are used for quantitative research (Bryman, 2012). Guba and Lincoln (1985), in Bryman (2012), thus propose the application of two other main criteria, namely trustworthiness and authenticity.

4.5.1 Trustworthiness

4.5.1.1 Credibility

Credibility refers to the confidence in the truth of the findings and constitutes the equivalent of internal validity in quantitative research (Bryman, 2012). To ensure credibility of the findings, it is of crucial importance for the researchers to follow the canons of virtuous research practice (ibid). In this thesis, the process of selecting interviewees and collecting data has thus always aimed to achive a richness of information rather than a large amount (i.e. quality before quantity). Another step taken to ensure credibility has been to audio-record and transcribe the interviews, and then complement this information with personal notes from the interviews. The interviewees have also been invited to proofread quotations and the sections in which they appear in order to avoid influence of biased interpretations from the side of the researchers. The multiple data collection approach has further allowed for triangulation of data, which provides stronger substantiation of constructs and cross-checking of data (Eisenhardt, 1989; Yin, 2003).

[16] Thorough discussions were, however, held with the interviewees before any alterations were made.

4.5.1.2 Transferability

Transferability concerns the applicability of the results in other contexts and can thus be compared with the concept of external validity within quantitative research (Bryman, 2012). Since this thesis uses a multiple case study, the opportunities for generalizations are, as earlier mentioned, highly limited per definition (Yin, 2003; Bryman, 2012). However, this does not necessarily discredit the results of the study since the results can be seen as valid until proven differently (Merriam, 1988).

4.5.1.3 Dependability

Dependability refers to whether the findings are likely to apply at other times and can consequently be compared with the concept of reliability in quantitative research (Bryman, 2012). In relation to case studies, one must once again bare in mind that case studies are situation-specific and conditioned on their contextual factors (Dubois & Gadde, 2002). However, in order to enhance other researchers' understanding of the dependability of the results, this thesis has sought to thoroughly describe the research design, the context in which the study has been performed and the underlying assumptions of the study. The use of triangulation has further strengthened the reliability and thus the dependability (Merriam, 1988).

4.5.1.4 Confirmability

Finally, confirmability relates to whether the researcher has allowed for any personal values to intrude in the data collection and analysis (Bryman, 2012). Although complete objectivity is impossible in qualitative research (ibid), the aim of this study has been to keep personal values and biasedness separate from the research process. In addition, as earlier stated, all interviewees have had the possibility to proofread and discuss the sections in which they appear in order to limit any biased interpretations from the interviews.

4.5.2 Authenticity

The usefulness of authenticity has been a controversial topic among researchers (Bryman, 2012) and will consequently not be the subject of any in-depth discussion. There is however one specific criteria within authenticity, fairness, which is important to raise since it reflects on whether the research fairly represents the different viewpoints amongst members of the social setting (ibid). In this study, interviews and correspondences have taken place with a limited number of representatives from NGOs, media and institutional investors. One can thus question how representative these interviewees are in relation to the views and beliefs of other actors belonging to the same groups. In order to deal with this issue, the selection process of the representatives has been carefully considered and the interviews have further been complemented with secondary sources of data with the aim of achieving a broader and more international picture.

5 Empirics

This thesis is based on both primary data and secondary data that have been collected from interviews, email correspondences, news articles and web pages.

5.1 Prominent Stakeholders

The MNC representatives and the consultants all share the view that there is an increased political and societal pressure on issues related to corporate tax. The tax manager at Industrial Goods Corp, for example, describes that "there has been a high pressure on tax during the latest years, and that it just keeps on increasing". More specifically, NGOs, media and investors were mentioned as prominent stakeholders in relation to the question of a CbC disclosure.

5.1.1 Non-Governmental Organizations

5.1.1.1 ActionAid

Christine von Sydow, General Secretary at ActionAid Sverige, states that ActionAid Sverige has been working publicly with the issue of tax since 2009. According to von Sydow, "ActionAid[17] is promoting increased tax transparency with the aim of decreasing poverty in the world". On the note of transparency, von Sydow argues that CbC reporting among other measures would create awareness of the total amount of taxes that a country receives and, in the light of a country's level of societal investments, help to reveal corruption and decrease poverty. CbC reporting would also, according to von Sydow, reveal corporate tax avoidance and evasion which further could aid the battle against poverty. Although von Sydow is clear on the point that Swedish MNCs' tax practices only constitute a "piece of the larger puzzle", she still emphasizes the importance of increased transparency in Swedish MNCs and that ActionAid Sverige has been taken actions to promote such behavior.

Von Sydow for example refers to a report, "Rättvis Skatt – En Fråga för Storföretagen", that ActionAid Sverige published in 2013. The report states that 2/3 of the largest corporations on Nasdaq OMX Stockholm do not want to share their tax policy, and demands corporate and governmental representatives to: (a) stop with aggressive tax planning; (b) stop with deleterious tax incentives; and (c) increase the transparency of how taxes are handled in corporations and governmental agencies (ActionAid Sverige, 2013). In conjunction with the release of the report, von Sydow further wrote a debate article where she argued that corporations' social responsibilities also should incorporate tax and that the Swedish government should promote CbC reporting within the OECD and the EU (Von Sydow, 2013).

Although ActionAid Sverige is pleased with the increased awareness and support of CbC reporting in Sweden, von Sydow states that "ActionAid Sverige's interest for the question has not declined" and that they will continue with their work until a law on CbC reporting is established.

[17] ActionAid is an international non-governmental organization, with presence in over 40 countries (e.g. ActionAid Sverige).

5.1.1.2 Swedwatch

Åse Botha, Researcher and Head of Communications at Swedwatch, states that Swedwatch has an interest in tax transparency with the aim of decreasing corruption and mentions the report "Skattjakten - Var Skattar Företag med Verksamhet i Utvecklingsländer?" that Swedwatch produced in collaboration with Diakonia[18] in 2013.

Botha was not responsible for the report but explains that the report and Swedwatch view tax avoidance as an extensive barrier to financing of welfare in developing countries. She further claims that CbC reporting, for example, would make it easier for local societies to question their governments' financials, which could prevent corruption and embezzlement of taxes. Although Swedwatch, within the scope of the report, does not find any illegal or unethical tax avoidance at Sandvik, Atlas Copco, SKF and Ericsson, the report is still critical towards the MNCs' lack of transparency (Swedwatch, 2013). The report further recommends the Swedish government to work internationally for a legislation on CbC reporting and encourage Swedish MNCs to in detail disclose profits and taxes in all countries in which they operate to enable investors to compare tax payments with corresponding operations.

As a final note Botha explains that reports, such as the one published on tax avoidance, in combination with seminars where they invite decision-makers and media constitute Swedwatch's main tool for promoting change. During the interview it is also mentioned that a new report on tax avoidance and transparency might be initiated to further promote tax as an aspect within CSR.

5.1.1.3 Other Non-Governmental Organizations

The question of tax in relation to CSR and CbC reporting is also promoted by other NGOs. Attac Sverige is, for example, campaigning against tax avoidance and refers to the initiative "Tax Haven Free"[19] which promotes local politicians and municipalities to decrease tax avoidance by demanding CbC reporting in conjunction with public procurements (Attacs Skattekampanj, 2015; Andersson, 2015; Upprop för Skatteparadisfria Kommuner och Regioner, 2015). The Swedish municipalities Malmö Kommun and Kalmar Kommun are, for example, part of the Tax Haven Free-campaign and wish to exclude corporations with connections to tax havens in their procurements (Eriksson, 2015). Other NGOs and networks demanding more transparency are, for example, Christian Aid (Tax Justice - Our Campaign Explained, 2015), Oxfam International (G20 Must Re-Write Tax Rules and Recoup Africa's Missing Billions, 2013), European Network on Debt and Development and Financial Transparency Coalition (% Tax Justice, 2015) and Transparency International (Country by Country Reporting: The Problem, 2015).

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[18] Diakonia is an aid organization supported by Christian values.

[19] Tax Haven Free is a call for tax haven free cities and local governments.

5.1.2 Media

5.1.2.1 Dagens Industri

Malin Eirefelt has written three articles during March 2015 about transparency and CbC reporting. The first article, "Få Företag Redovisar var Skatten Betalas", is based on an investigation from the communication firm Hallvarsson & Halvarsson, and states that only 7 of the 100 largest publicly listed corporations see tax as a CSR question, namely Husqvarna, Stora Enso, Tele 2, H&M, Klövern, Handelsbanken, Castellum (Eirefelt, 2015a). The article further states that merely 3 out of the 100 largest publicly listed corporations have CbC reporting on tax, more specifically Telia Sonera, Nordea and Nordnet. Finally, the article also reveals that the demand on more information about tax is high within the financial sector (64 % of 301 analytics, investors and economic journalists request more information).

The other two articles by Eirefelt, "Skatt en Fråga om Hållbarhet" and "Transparens Delar Bolagen", were both published on March 26th 2015. The first article is based on an interview with AMF Fonder's CEO Gunilla Nyström where Nyström says: "I think tax is a sustainability question. If sustainability is about ESG, environmental social governance, then a part of corporate governance is that you handle your taxes in a legal and sustainable way" (Eirefelt, 2015b). The second article, "Transparens Delar Bolagen", relates to an investigation by Eirefelt on how corporations on Large Cap at Nasdaq OMX Stockholm report their taxes today and if they are planning to change their practices. Corporations such as MTG, SSAB, Alfa Laval, Astra Zeneca, Securitas, Peab, AAK, Trelleborg, Ericsson and H&M are mentioned as corporations that refer to laws and rules which currently do not require any CbC reporting (Eirefelt, 2015c).

In email correspondence, Eirefelt claims that there is a large interest from the general public when it is revealed that a corporation has misbehaved and/or avoided tax, and according to Eirefelt that suggests an indirect interest for transparency as well. Eirefelt does, however, not experience any direct interest in transparency and further elaborates that media only tend to be interested when corporations misbehave and not when they are trying to prevent misbehaviour. Nevertheless, Eirefelt is sure that tax is "the new CSR question". Eirefelt further argues that media have influence as opinion leaders and mentions Sverker Martin-Löf's resignation from SCA[20] as an example of media's potential power. Resignation is however, according to Eirefelt, never the aim of a media investigation. The aim is only to shed light on an issue, and Eirefelt is "absolutely certain" that Dagens Industri will continue to work with the question of tax transparency and CbC reporting.

5.1.2.2 Other Media Organizations

Another Swedish newspaper that has published articles on the topic of tax transparency is Svenska Dagbladet. In 2013, for example, the newspaper wrote about ActionAid's report "Rättvis Skatt - En Fråga för Storföretagen" (Alestig, 2013). In the article, Svenska Dagbladet also states that they have tried to ask

[20] Sverker-Martin Löf was forced to leave his position as Chairman at SCA in January 2015 following Svenska Dagbladet's investigation of SCA's internal affairs.

corporations about CbC reporting of taxes but that the main message from the contacted companies were "We follow the laws – but how much we pay in taxes is a secret" (Alestig, 2013).

In terms of international media, several MNC representatives and consultants mention a large interest for tax avoidance by British media. The Guardian, for example, devotes a whole section (Tax Avoidance, 2015) to tax avoidance and recently (March 2015) published an article on how the EU is considering to demand CbC reporting (Traynor, 2015). The article also refers to an interview with a representative from the NGO Oxfam who states: "By not including country-by-country reporting – information on where companies really employ people, hold assets and pay taxes – in the transparency proposal, the European Commission is deceiving citizens" (ibid). Other international media organizations that have published articles on tax avoidance and CbC reporting are, for example, The Independent (e.g. Chu, 2014) and the Financial Times (e.g. Houlder & Parker, 2013).

5.1.3 Investors

5.1.3.1 Öhman

Fredric Nyström, Head of Responsible Investments at Öhman, describes that tax is a relatively new parameter within ethical investments and that Öhman's current evaluation criteria for their ethical funds do not include tax. Nyström further thinks that it will take some time before tax becomes truly established as a parameter within ethical investments since the investor community "has a hard time getting their heads around the issue". He elaborates this by stating that taxes, from an investor's perspective, has an inherent conflict since an aggressive or effective tax strategy, although unethical, can be profitable for investors.

Nevertheless, Nyström states that he is confident that tax and CSR are two closely related concepts and that increased transparency of corporate tax practices is needed. On a final note, Nyström also explains that Öhman's evaluation criteria are evolving and that he is keeping his eyes on the development of tax as a sustainability question, and that he is sure that CbC reporting is a good development and a tool for evaluation of sustainable tax practices.

5.1.3.2 Folksam

Carina Lundberg Markow, Chief of Responsible Ownership at Folksam, describes in email correspondence that tax is not a parameter that affects Folksam's investment decisions specifically, "given that corporations act within the limits of the law". Lundberg Markow does however state that Folksam considers responsible tax practices to be an important subject and that they actively encourage MNCs to increase their transparency in relation to taxes. More specifically, Folksam advices MNCs to disclose a CbC report in accordance with Transparency International's guidelines since a CbC report, according to Lundberg Markow, is an important tool in the battle against corruption.

5.1.3.3 Första AP-Fonden

Ossian Ekdahl, Head of Communication and ESG at Första AP-Fonden, is a bit more skeptical towards CbC reports. He mentions that although CbC reports constitute a good idea from a transparency perspective, they could easily become too complicated for the user to understand. Ekdahl elaborates this by stating that CbC reports from large MNCs like Ericsson and Electrolux, with operations spanning over many different countries, would be impractical and difficult to interpret. As an alternative to CbC disclosures, Ekdahl suggests that auditors could start reviewing MNCs' tax policies more closely in order to see if MNCs actually follow them or if they only constitute "empty words".

Overall, Ekdahl finds it complicated to know how corporations' responsibility in terms of tax should be treated by investors and mentions that the AP funds, together with 5-7 large institutional investors (e.g. Svenska Kyrkan), have met with corporations and their tax experts to learn more about how they view the question of tax in relation to CSR. Ekdahl further states that Första AP-Fonden, in March 2015, invited the 20 largest institutional investors in Sweden and two representatives from the Swedish Tax Agency to discuss how tax in relation to CSR should be treated from an investor perspective.

Ekdahl also describes that there is a twofoldness to taxes since the subject relates both to profits and risks. More specifically, Ekdahl describes that although a corporation might be able to boost its profits in the short term using aggressive tax planning, such behavior constitutes an increased risk in the long run since the corporation might harm its relationships with governmental bodies and/or induce establishment of new tax laws. Continuing on this line of reasoning, Ekdahl states that these kinds of "heightened tax risks" could become incorporated by investors into risk premiums, and thus corporate valuations, in the future. However, in order for the investors to be able to make such incorporations, MNCs need to improve transparency in tax disclosures (Ekdahl). More specifically, Ekdahl states that if some corporations become more transparent about tax, investors will be able to both evaluate the transparent corporations and also assume that non-transparent corporations have something to hide, speaking in favor of a higher risk premium.

5.1.3.4 Other Institutional Investors

Swedbank Robur has recently (December 2014) published an ownership policy on taxes that describes the their view on tax planning and their recommendation to increase transparency (Swedbank Robur, 2014). In its ownership policy, Swedbank Robur encourages corporations to increase tax transparency in order to reduce the investor's uncertainty and risk. For example, Swedbank Robur recommends MNCs to disclose their tax policies and, when necessary to avoid investor uncertainty, present total payments to governments on a CbC basis (ibid).

Sasja Beslik, Head of Responsible Investments and Governance at Nordea Investment Funds, further during the seminar "Är Skatt Nästa Hållbarhetsfråga?" mentions that Nordea, based on increased interest from customers, has started to view tax avoidance as a factor closely related to investment risk (KPMG Almedalen, 2014). In an interview with Financial Times, Beslik also describes how Nordea will raise tax-related concerns, such as aggressive tax strategies and transparency, with a company's board and that they, in cases where the board does not listen, will file a motion at the annual general meeting (Marriage, 2014a). If such an act still would prove ineffective, Beslik states that Nordea will exclude the company in question from its portfolio (ibid).

The issues of tax avoidance and inadequate tax reporting have also been raised by institutional investors on an international level (Marriage, 2014a). A group of institutional investors (including Batirente, UK Local Authority Pension Fund Forum, Royal London Asset management and Ofi Asset management) has, for example, come together to call on the G20 leaders to modernize the international taxation laws (Marriage 2014b). The group further calls on MNCs to lift the secrecy around taxation in order to meet changing expectations on institutional governance (ibid).

5.2 MNCs' Reasoning on the Prominent Stakeholders

5.2.1 Non-Governmental Organizations

Although all MNC representatives express that there is a very large interest from NGOs on their tax practices, none of the representatives puts any emphasis on the importance of NGOs. The tax manager at Consumer Goods Corp 1, for example, describes that even though the MNC always listens to what NGOs are asking for, they "do not incorporate NGOs as a factor in decisions related to corporate reporting". The tax manager at Industrial Goods Corp further criticizes NGOs for having a poor understanding for matters related to tax and claims that they in many cases try to make "a mountain out of a molehill". However, in response to a high amount of inquiries from NGOs, Industrial Goods Corp have decided to extend their tax disclosures[21] (Tax Manager, Industrial Goods Corp).

5.2.2 Media

All MNC representatives express criticism towards media and the tax manager at Consumer Goods Corp 1, for example, states that media tend to have a too narrow view of tax and argues that "there always are two sides of the coin, and that the area of tax cannot be seen as black and white". The tax manager at Consumer Goods Corp 2 says the same and claims that it is important to have a cool head and not succumb for media because "they will write about anything".

The general opinion among the MNC representatives further seems to be that media are unknowledgeable and do not understand the complex nature of tax properly. The tax manager at Basic Materials Corp, for example, mentions that it is hard to explain accrual effects for media and the representatives from Consumer Goods Corp 1 & 2 seem to be afraid of being misunderstood. The tax manager at Consumer Goods Corp 1 further describes that the MNC is sensitive to negative publicity in media since the MNC is reliant upon its brand to sell its products. He elaborates by saying "Google is Google" and describes how Google has received a lot of negative media attention in relation to its tax strategies without any customer reactions, but

[21] The specific alteration cannot be revealed due anonymity.

continues by saying "when our customers are in the store, it is easy for them to replace us with another brand". The same tax manager continues and claims that Consumer Goods Corp 1's brand "is worth too much for the MNC to appear as a tax avoider in media" and that they consequently are very cautious with their tax practices. The CSR manager at Consumer Goods Corp 2, on the other hand, brings up another aspect of negative media coverage, stating that it can affect their attractiveness as an employer.

Most of the consultants, however, claim that the majority of their clients are not worried about being displayed negatively in media, but a consultant from BigFour 2 still states that "some Swedish industrial corporations pay more taxes compared to their foreign competitors to avoid media attention". A consultant from BigFour 1 further states that "media blow things out of proportion" and that corporations are afraid of being portrayed as tax avoiders while a consultant from BigFour 4 claims that some corporations are afraid of even getting close to a "grey area" when it comes to taxes.

5.2.3 Investors

All MNC representatives (except for the CSR manager at Basic Materials Corp) claim that they have received inquiries from investors regarding the MNCs' tax practices. The inquires, however, seem to be conflicting. The tax manager at Industrial Goods Corp mentions that most investors are interested in how the MNC will be able to keep its taxes low, while other tax managers experience that many questions concern tax transparency. For example, the tax managers at Consumer Goods Corp 1 & 2 have recently received questions from an institutional investor regarding their tax policies and their general approach to tax. The CSR manager at Consumer Goods Corp 1 further mentions that different ethical investors have started to ask questions, and that this has made the MNC consider how it can improve its communication of taxes. In relation to the conflicting inquires, the tax manager at Consumer Goods Corp 2 claims that they "want as low tax as possible" at the same time as he claims that the MNC avoids being in the grey zone as it creates uncertainty that investors do not want.

In general, all of the MNCs pay close attention to what their investors are asking for. The tax manager at Consumer Goods Corp 1 mentions that all things start to get interesting "when it affects your share price" and the CSR manager at Basic Materials Corp puts a lot of emphasis on the importance of providing the investors with the information they want. The CSR manager at Basic Materials Corp further explains that he keeps a close eye on what their institutional investors with an ethical profile want since they are very active investors at the same time as they constitute large shareholders in the MNC. The same CSR manager further, by referring to a specific event[22], explains how an ethical investor's decision to sell its stake hurts the MNC's trademark.

Although the MNC representatives experience an interest from investors to disclose a CbC report, the CSR manager at Industrial Goods Corp claims that "such a disclosure would not give them the information that they actually want" and that there are other, better, ways for the MNC to show that it is a responsible

[22] The specific event cannot be revealed due anonymity.

corporate citizen. In addition, the tax manager at Basic Materials Corp claims that investors always want more information but that a benefit of disclosing more information has to be seen by the MNC before such a decision is made.

5.3 MNCs' Reasoning on a CbC Disclosure

5.3.1 Advantages

Only two reasons favoring a CbC disclosure are mentioned and one of the representatives, the tax manager at Industrial Goods Corp, even states that he "sees no reason to disclose a CbC report". However, representatives from two MNCs, namely Consumer Goods Corp 1 and Industrial Goods Corp, mention that they view assessments for inclusion in sustainability indices as reasons to increase tax transparency. The CSR manager at Consumer Goods Corp 1 further states that increased tax transparency would allow the MNC to create better understanding for taxes. The same manager explains that the current silence of MNCs when it comes to taxes has made room for prejudices around the subject and that she thinks that MNCs, by becoming more transparent, could remove these "biased views".

5.3.2 Disadvantages

In contrast to the few advantages, a large amount of disadvantages are mentioned during the interviews with the MNC representatives. The tax manager at Basic Materials Corp, for example, describes that one reason why they consider a CbC report to be unnecessary is that they consider themselves as a "low risk industry" when it comes to tax avoidance. He explains this by saying that corporations within basic materials mostly have internal transfers where the prices are set on active markets and that their abilities to minimize tax consequently are very limited. The tax manager further elaborates and claims that the knowledge that there are active prices reduces the pressure on becoming more transparent.

The same tax manager also mentions that the MNC has chosen to refrain from CbC reporting on taxes since such a disclosure constitutes a "pedagogical challenge". This reason is also brought up by other tax managers (e.g. Consumer Goods Corp 2). The tax manager at Basic Materials Corp further states that the public understanding for taxes is poor, and that a CbC report on taxes would raise more questions than answers. The tax manager at Industrial Goods Corp exemplifies this by saying that there are many different things affecting your corporate tax in a given country and in a given year, and that it would be close to impossible to explain this for the reader in an understandable way.

Many of the tax managers also seem to fear that a public CbC report could increase the number of tax audits, and thus also the administrative burden for the MNC. The tax managers at Consumer Goods Corp 1 & 2, for example, mention that all tax agencies are not as cooperative as the Swedish one. The tax agencies in Denmark, Italy and Brazil are described as particularly aggressive in several of the interviews and many of the tax managers appear to fear that agencies like these will use a public CbC report to start a tax audit even though there is nothing wrong. For example, the tax manager at Consumer Goods Corp 1 mentions that there is a high probability that the tax agencies will focus too narrowly on one specific number, although there might be perfect natural causes to a low corporate tax in a certain market and in a certain year.

The tax manager at Industrial Goods Corp also mentions that only collecting the information needed for a CbC report would imply significant costs for the MNC and further elaborates that new reporting systems would have to be put in place. This stands in contrast to the other interviewed MNCs, where it appears as if most of them already have the information at hand. However, the tax manager at Industrial Goods Corp states that the implementation of BEPS will force them to collect the information soon anyways.

In general, many of the representatives mention that there are a lot of things to include in the annual report and that they always have to consider the value for the user of an additional disclosure in relation to the extra work and costs that are required to present the information. The CSR manager at Industrial Goods Corp, for example, says "You know, honestly, if I could get a report that was as small as possible, as thin as possible, as informative as possible I would. So I don't want to write… There are companies that have sustainability reports that are 600 pages and how many trees died for their reports?" Besides the additional work that is necessary to present a CbC report, the tax manager at Consumer Goods Corp 2 highlights the administrative burden that will follow such a disclosure: "Can only imagine how many questions we will receive. We would have to put in a lot of work on non-issues that will become issues".

During the interviews, both CSR and tax managers also raise the issue that there is no standard nor any best practice outlining how a CbC report should look like. The tax manager at Consumer Goods Corp 2, for example, mentions that it is hard for them to know what to present and how: "What is actually taxes paid per country?". The tax manager at Basic Materials Corp also states that he would like to see a standard that "sets guidelines for relevant information and how it should be reported". Both the tax and CSR manager at Industrial Goods Corp further question the value of a CbC disclosure when there is no best practice: "The numbers will not be comparable, so what is then the use for the investors?" (Tax Manager).

The representatives from Consumer Goods Corp 2, further state that they do not want to be the MNC that takes the leading role in setting a voluntary standard. Instead, they prefer to take a passive role and let some other MNC lead the way and make the beginner's mistakes on a CbC disclosure before they come in as a "second-mover". The tax managers at Consumer Goods Corp 1 & 2 further mention that they on a regular basis meet with tax managers from other MNCs to discuss different tax issues, such as transparency.

All of the representatives, except for the ones from Basic Materials Corp, further mention that a publication of a CbC report might undermine their competitive position. The tax manager at Industrial Goods Corp, for example, describes how a CbC report will give their competitors sensitive information about their operations and profitability in different markets and that this consequently could hurt their competitiveness. On a similar note, the CSR manager at Consumer Goods Corp 1 states that a drawback with a CbC report is that "potentially sensitive information in relation to competitors becomes public".

5.3.3 Other Ways to Show Responsibility

Although none of the MNCs have any concrete plans to publish a CbC report, they all have internal discussions on how they can improve their communication related to tax in other ways. Consumer Goods Corp 1, for example, is planning to make parts of its tax policy public and extend the reporting on taxes in its annual report (Tax Manager). The CSR manager at Consumer Goods Corp 1 further describes that they are searching for ways to better present how the MNC contributes to societies around the world. The CSR manager at Industrial Goods Corp also states that they are working on ways to better communicate their approach to taxes and further mentions that they view Unilever as a role model when it comes to reporting on taxes.

In general, the MNCs have quite recently started to consider tax as a question within CSR. The tax manager at Consumer Goods Corp 1, for example, states that it is only a few years since the tax department began to interact with the CSR department and further describes that they mainly collaborate on issues related to policy development and external communication. At Industrial Goods Corp, the CSR manager describes that their collaboration with the tax department is on an ad-hoc level and the tax manager confirms and adds that they are separate units but that they have "some collaboration". The CSR manager at Consumer Goods Corp 2 specifies that tax started to appear as an issue within CSR two years back and states that "before that, people did not talk about tax in relation to CSR".

On the question of what the MNC representatives consider as responsible tax practices, the CSR and tax managers at Industrial Goods Corp and Consumer Goods Corp 1 refer back to their tax policies. These policies include a part on CSR and are, according to the representatives, guiding principles that state that the MNCs should act as responsible corporate citizens and not engage in any aggressive tax strategies. The representatives from Consumer Goods Corp 2 and Basic Materials Corp, on the other hand, explain that they currently do not have a part related to CSR in their tax policies. The tax manager at Consumer Goods Corp 2 however says that their tax policy is under revision and further that tax is seen as a part of CSR. The tax manager at Basic Materials Corp claims that it is the legislator's responsibility to decide on what is right, but further adds that Basic Materials "never have had any focus on minimizing tax".

5.4 Consultants' Reasoning on a CbC Disclosure

5.4.1 Advantages

In contrast to the view of the MNC representatives, a consultant at BigFour 3 views the absence of a CbC reporting standard as an opportunity. He elaborates by saying that this gives MNCs more leeway on what and how to present CbC tax material and that they consequently can use a CbC report as a marketing tool and promote the areas where they perform the best. To illustrate, he states that "banks, which pay a lot of VAT, would prefer to include VAT in a CbC report while others, with lower VAT payments, might not feel the same". In addition, the consultant argues that the fact that so few MNCs currently disclose a CbC report "creates opportunities for a first mover advantage" where the corporation in the public eye could be seen as the role model for transparent and responsible tax practices. His colleague further explains that a voluntary CbC report allows a MNC to explain their numbers freely, which also could be beneficial if the BEPS's CbC report to tax authorities would leak.

A consultant from BigFour 2 further states that corporations in some industries might effectively benefit more from increasing tax transparency through a CbC report than others since it profiles such entities as good corporate citizens at least for tax purposes. He elaborates this by stating that MNCs receiving a lot of negative publicity, e.g. groups in the defense industry (frequently criticized for their ethics) and groups in the business-to-customer (B2C) space that are directly subject to customer influence (boycotts due to breach of public opinion) have more to earn from CbC reporting. Traditional MNCs in the industrial business-to-business (B2B) space are probably less volatile for public opinion and have less to earn from increased transparency.

The same consultant at BigFour 2 further adds that a CbC disclosure might become necessary to retain business and states: "If the industry leader starts to do it, then its subcontractors must also start to do it". On a similar note, one of the BigFour 3 consultants states that CSR questions tend to exhibit a life-cycle progression that "starts with an internalization within the specific MNC and then expands throughout its network of suppliers and customers" but that it probably will take around 10-15 years before it happens with tax. His colleague further highlights how large retail corporations have been criticized for having suppliers that use child labor, and that the MNCs have had to ensure that their subcontracts refrain from such activities.

5.4.2 Disadvantages

A number of disadvantages of a voluntary CbC report are also mentioned during the interviews with the consultants. For example, a consultant from BigFour 2 brings up the issue that there is no standard that clarifies how MNCs should present such material. Another consultant from BigFour 1 argues that a voluntary CbC report might reveal sensitive information to competitors and a consultant from BigFour 3 claims that a CbC report could increase the risk for tax audits and double taxation.

One of the consultants from BigFour 3 further argues that only a few Swedish MNCs are ready to open up and disclose a CbC report. The reason, he argues, is that that they are not mature enough in their understanding of tax in relation to CSR and according to him "you cannot be transparent, if you cannot handle it". He elaborates and claims that corporations not only need to understand all parts of a corporation and establish congruence between the tax strategy, tax policy and tax communication but also ensure that "tax managers understand what the corporation's profile is and adjust their work with tax so that it matches with the profile".

The consultant from BigFour 3 further claims that "tax is easy to misunderstand" and that it therefore is important for the MNC to be able to explain taxes in an understandable way and have a plan for how increased transparency will be handled. A consultant from BigFour 4 also states that a CbC report will increase the number of questions concerning tax and argues that MNCs consequently need to educate their personnel. The same consultant elaborates and claims that it is critical to ensure that tax communication is handled correctly since it otherwise is a high risk that "the tax agencies will come knocking on the door".

6 Analysis

In this section the research question will be analyzed using previously described theories on voluntary disclosures (i.e. proprietary cost theory, institutional theory, legitimacy theory and stakeholder theory).

6.1 Why Do Not the MNCs Disclose a CbC Report?

Although all MNCs have received inquires on a CbC report, none of the MNCs have decided to voluntarily disclose one. Their reasoning can be understood using proprietary cost theory, institutional theory and partly by the use of legitimacy theory.

6.1.1 Too High Costs

Applying the principles of proprietary cost theory, it is not surprising that the MNCs currently do not voluntarily disclose a CbC report. As Pistoni and Songini (2013) argue, the probability that a corporation will voluntarily communicate information is negatively correlated with the costs of the disclosure and positively related with the benefits. During the interviews almost no benefits were mentioned, rather the MNC representatives always emphasized the costs of a voluntary CbC report. The costs that were mentioned can in line with Prencipe (2004) be categorized into two types of costs, which further can be defined as direct and indirect costs of a CbC report. In terms of direct costs, the tax manager at Industrial Goods Corp, for example, emphasized the costs of altering the current reporting systems in order to retrieve relevant information for a CbC report. Several other representatives, e.g. the CSR manager at Industrial Goods Corp, further mentioned the administrative costs of producing and presenting a CbC report.

In terms of indirect costs, several MNC representatives discussed the costs that most likely will follow a CbC report. For example, many representatives, e.g. the CSR manager at Consumer Goods Corp 1, claimed that a CbC report will hurt their competitive position since their competitors will gain highly sensitive information about their business. The tax manager at Consumer Goods Corp 1 also mentioned the increased risk of tax audits and the costs that the audits will imply for the MNC. In addition, the MNC representatives also emphasized an indirect cost not mentioned by Prencipe (2004), namely the administrative burden that will follow a public CbC report. The tax manager at Consumer Goods Corp 2, for example, expressed concern for all of the questions that will come from unknowledgable readers of a CbC report.

6.1.2 Nobody Setting the Standard

The MNCs' decision to not disclose a CbC report can also be understood using institutional theory. As Holder-Webb et al. (2009) claim, *isomorphism* causes corporations to become increasingly similar in their disclosures. Since only a few MNCs (3 out of the 100 largest publicly listed corporations[23]) currently disclose a CbC report, there is no substantial organizational convergence, and hence no pressure, towards a CbC disclosure. This lack of pressure was also evident during the interviews. Several of the representatives, for

[23] Eirefelt, 2015a.

example, pointed out that almost no other MNCs in their industry disclose a CbC report and that they see no reason for why they then should do it.

The fact that there is no best practice or standard, i.e. no *custom* (Cormier et al, 2005), on how a CbC report should be designed further suggests a low institutional pressure. This was also evident during the interviews where many of the representatives, e.g. the tax manager at Basic Materials Corp, claimed that they are reluctant to disclose a CbC report until there is a clear standard specifying which information to present and how. Hence, all of the MNCs are currently conforming with their *past routines* (ibid) on tax transparency and in relation to changes, the representatives at Consumer Goods Corp 2 further highlighted that they see many benefits of being "the second mover" since it allows the MNC to evaluate how other corporations handle the issue.

6.1.3 Transparent in Other Ways

The resistance to disclose a CbC report can also partly be understood in the light of legitimacy theory. As Lindblom (1994), in Deegan (2002), points out there are different strategies for how a corporation can manage legitimacy using disclosures, where one strategy is to change the perception of the relevant public without actually conforming to the inquires. During the interviews with the MNC representatives it became evident that they are working on other ways to manage the increased inquires on a CbC report and the need of being viewed as legitimate. The CSR manager at Consumer Goods Corp 1, for example, described how they instead of disclosing a CbC report are planning to make parts of their tax policy public and present how they in different ways are contributing to societies around the world.

6.2 What Are the Inherent Risks in the MNCs' Reasoning?

Although the MNCs appear to be trying to build legitimacy in other ways than through a CbC disclosure, one can question how effective these measures are. As Deegan (2002) states, there is a need to complement legitimacy theory with the principles of stakeholder theory, since legitimacy theory concerns legitimacy in relation to the society at large whereas stakeholder theory recognizes the fact that the society is made up of various groups with unequal power.

6.2.1 Inapproriate Prioritization of the Prominent Stakeholders

Based on the interviews with the MNC representatives it appears as if the MNCs prioritize the prominent stakeholders in following order: investors, media and NGOs. The reasoning of the MNCs can be understood by using Mitchell et al.'s (1997) theory on stakeholder prioritization which argues that the attributes *power, legitimacy* and *urgency* in relation to the corporation determine the corporation's prioritization.

The MNC representatives appear to perceive that investors possess all three of Mitchell et al.'s (1997) outlined attributes and can thus be defined as the *definitive stakeholders*. In relation to power, all MNCs appear to pay high attention to what investors are asking for and are also well aware that investors have a direct power in the sense that they at any point could threaten to sell of their stake. Although many of the MNCs, e.g. Industrial Goods Corp, feel that investors do not know what they are asking for, investors are still perceived as legitimate in their claim on the MNCs to increase their tax transparency. Finally, in relation to urgency, most MNC representatives mentioned that they have received inquiries on CbC reporting from investors and that they experience some form of urgency.

In similarity to investors, media were also perceived to possess power which was evident in the way that the MNC representatives expressed a fear of having their tax practices portrayed negatively in media. In terms of legitimacy, however, the MNCs seemed to doubt media's competence within tax and often claimed that their articles only are focused on one side of the coin. Hence, from the view of the MNCs, media are not seen as a fully legitimate stakeholder group. Media were, however, perceived to have a quite urgent claim given their increased inquires to the MNCs.

In terms of NGOs, it was evident that none of the MNC representatives perceive NGOs to possess any form power in relation to their reporting practices. The tax manager at Consumer Goods Corp 1, for example, stated that they would never disclose anything only because a NGO is asking for it. The representatives from the MNCs were further critical to the NGOs' understanding of tax and NGOs were thus, in similarity to media, not perceived to have a fully legitimate opinion. NGOs were, however, perceived to have the most urgent claim since they constantly are contacting the MNCs and actively are lobbying for change in the MNCs' reporting practices on taxes.

Given the MNCs' prioritization of the prominent stakeholders in relation to CbC reporting, several risks can be identified, where the most evident danger is the low prioritization assigned to NGOs. Even though NGOs do not possess any direct power in relation to the MNCs, they still have a substantial indirect power. Applying the *snowball technique* (Rowely, 1997) the NGOs' indirect power becomes evident. For example, NGOs often invite media in conjunction with a release of a new report on MNCs. Media in turn often use material from the NGOs' reports and also allow representatives from NGOs to convey their opinion and argumentation in articles. Since media further are directed towards the general public, their articles can have an impact on the public opinion and thus the behavior of current and potential customers, employees and investors. A changed public opinion (and the NGOs' direct lobbying towards decision-makers) could further have an affect on politicians which might induce establishment of a law on public CbC reporting. Although this is taken to the extreme it is nevertheless evident that NGOs have a large influence on several actors in the MNCs' environment, thus raising the importance for MNCs to go beyond *dyadic ties* and recognize the way in which different stakeholders interact through *networks*.

As of now the MNCs' attention is mainly directed towards their investors and what they require in order to perceive the MNCs as legitimate corporations. Although some investors recommend MNCs to disclose a CbC report, none of them actually requires it and Ekdahl (Första AP-Fonden) even expresses concern about its complexity and usefulness. Hence, as for investors, it might be enough for MNCs to manage their legitimacy using other transparency measures such as a disclosure of their corporate tax policy. It is, however, apparent that a tax policy will not be enough to satisfy the NGOs. Although NGOs, in general, do not have any outspoken distrust of the MNCs' tax practices, the lack of information confirming that the MNCs are acting responsibly might threaten their legitimacy. This is supported by Pistoni and Songini (2013) who argue that information asymmetry creates a form illegitimacy since legitimacy requires both alignment with society's values *and* communication of this congruence. Being viewed as illegitimate by NGOs might be a risk considering their indirect power.

6.2.2 Too Narrow Perception of Relevant Stakeholders

Another risk that can be identified using stakeholder theory is a too narrow perception of the relevant stakeholders in relation to CbC reporting. For example, in terms of a voluntary CbC report, governmental bodies and analysts[24] also constitute highly relevant stakeholders. Governmental bodies could, for example, impose a new law forcing MNCs to make a CbC report public if they feel that BEPS is not sufficient in addressing corporate tax avoidance. Analysts could further incorporate tax transparency in their evaluations of MNCs which could affect investment recommendations and thus also the stock price of a MNC. Although these examples once again are taken to the extreme, it is yet surprising that almost none of the MNC representatives mentioned these stakeholders in relation to the question of CbC reporting. Governmental bodies and analysts are further only two examples, there could be several other relevant stakeholders as well (e.g. customers and employees) and as claimed by Mitchell et al. (1997), potential relationships can be as relevant as actual ones.

6.2.3 Too Short-Sighted View on Legitimacy

Being legitimate today, might not imply legitimacy tomorrow since legitimacy is a dynamic concept (Deegan, 2000). For example, in terms of investors it is clear that their perception of tax and more importantly of tax transparency has changed and currently is evolving. Investors are not only starting to view tax as a factor within CSR, they are also starting to associate MNCs' tax practices with investment risk. Following the logic of the Lemons Principle[25], this might imply that MNCs choosing not to become more transparent, e.g. through a disclosure of a CbC report, will be viewed as illegitimate and will be penalized with a higher risk premium regardless of their actual tax practices. This potential was, among others, brought up by Ekdahl (Första AP-Fonden). Hence, if the MNCs do not pay close attention to what is required to limit information asymmetry, and thus for the MNCs to be viewed as legitimate among investors (Pistoni & Songini, 2013), it could affect the valuation of the MNCs and ultimately the MNCs' stock prices.

The potential that some MNCs will start to disclose a CbC report is further not unlikely. As one of the consultants from BigFour 3 stated, the lack of a standard creates opportunities for MNCs to promote the

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[24] In a sample of 301 analysts, investors and economic journalists 64 % request more information on corporations' tax practices (Eirefelt, 2015a).

[25] The Lemons Principle demonstrates how information asymmetry on a market, due to the buyer's uncertainty of quality, drives down the price of good quality products (Akerlof, 1970).

areas where they perform the best. The fact that so few MNCs currently disclose a CbC report also, according to the consultant, offers opportunities for a first mover advantage in terms of promoting oneself as "the role model". Consequently, there is a risk that some MNCs will take these opportunities and, in line with institutional theory (Holder-Webb et al., 2009), put pressure on other MNCs to follow.

Further, as the consultant from BigFour 3 stated, CSR in itself is also a non-static concept exhibiting a life-cycle progression which starts with an internalization within the MNC and then expands throughout the network of suppliers. Thus, if tax continues to grow as a parameter within CSR MNCs might, in the same way as with child labor, demand their suppliers to increase their tax transparency for the MNCs to achieve legitimacy. In order to be viewed as a legitimate supplier and to maintain its customers, a corporation might thus have to increase its tax transparency. This scenario is however not isolated to B2B relations. On the contrary, if responsible tax practices continue to grow as an important issue for consumers, boycotts like the one of Starbucks in the UK[26], might not be singular in nature. Although this type of process, as mentioned by the same consultant, lies 10-15 years ahead in time, it still raises the importance of understanding that what is required to be viewed as legitimate among its customers can change. Further, given the "Tax Haven Free" initiative where several municipalities, e.g. Malmö Kommun, already would like to demand a CbC report in conjunction with public procurements, the abovementioned process might not even take 10-15 years.

6.3 Necessity of Managing the Inherent Risks

Given the analysis above, there are arguments suggesting that a disclosure of a CbC report might be beneficial in order to limit risks related to an inapproporiate prioritization of prominent stakeholders, a too narrow perception of relevant stakeholders and a too short-sighted view on legitimacy. This would imply that the MNCs take a *proactive approach* (Pistoni & Songini, 2013), rather than their current *reactive approach*, towards managing legitimacy through a CbC disclosure. One could, however, question whether such an approach is necessary for all MNCs. For example, in line with legitimacy theory and the reasoning of a consultant from BigFour 2, MNCs active in low-risk industries in terms of negative media publicity might not have the same need to fulfill their *social contracts* and create legitimacy in relation to tax in contrast to MNCs active in more exposed and scrutinized industries.

In terms of industry, another parameter that might affect the need for a proactive approach is the characteristics of the transfer pricing system. As the tax manager at Basic Materials Corp mentioned, a corporation with transfer prices that are determined on active markets might not be as suspected for illegitimate tax behavior and breaches of the *social contracts* as a corporation with more arbitrary transfer pricing methods. Since corporations within basic materials, due to their interference with nature, are active in scrutinized industries (suggesting a need for a proactive approach) but at the same time have a transfer

[26] British consumers boycotted Starbucks in 2012 after it was revealed that the MNC only once had reported a taxable profit during its 15 years of operations in the UK (Preston, 2012).

pricing system based on active market prices (suggesting a lower need for a proactive approach), one might however wonder which factor that outweighs the other and determines the most appropriate approach to manage legitimacy.

In addition, the customer base and the specific corporation itself might also affect the necessity of a proactive approach. This relates to the idea that consumers (e.g. in the UK) often start to react on matters related to CSR sooner than business customers, for which the internalization process seems to take longer time. Hence, it could be more important for B2C MNCs to engage in a proactive approach of tax transparency compared to B2B MNCs since their stakeholder group of customers is more *urgent* (Mitchell et al., 1997) in their claim. However, as was brought up during the interviews, some corporations, like Google, with strong competitive positions constitute exceptions that do not need a proactive approach since they do not appear to suffer from negative publicity and loss of legitimacy.

Finally, a proactive approach with a voluntary CbC disclosure might even be a risk in itself. More specifically, a MNC can only gain from transparency if the disclosure is in line with the society's values (Pistoni and Songini, 2013) or if the MNC at least provides an explanation as to why it differs and how it should be improved. Moreover, as several of the consultants explained, many MNCs are currently not ready to handle a voluntary CbC report. For example, while a consultant from BigFour 2 emphasized the need to educate the personnel, a consultant from BigFour 3 took it even further and highlighted the need of achieving congruence on tax within the entire organization and its practices. Given the ad-hoc collaborations between the CSR departments and the tax departments at the interviewed MNCs, one can thus question if the MNCs currently are internally ready to disclose a CbC report.

7 Conclusion

This thesis has, using a multiple case study approach and theories on voluntary disclosures, aimed to explain the decision of Swedish listed MNCs to not disclose a CbC report. Using the same theories, the thesis has also aimed to identify the inherent risks in the MNCs' reasoning to not disclose a CbC report.

The MNCs' decision to not voluntarily disclose a CbC report can be understood using proprietary cost theory, institutional theory and partly by the use of legitimacy theory. In terms of proprietary cost theory, the MNCs refrain from a disclosure since they perceive more costs, both direct and indirect, than benefits with a CbC report. Using institutional theory, the MNCs further feel no pressure to disclose since almost no other MNCs are disclosing and since there is no standard. Finally, applying legitimacy theory and more specifically Lindblom's (1984) strategies on managing legitimacy, the MNCs consider themselves to achieve the necessary legitimacy through other measures, such as a public tax policy.

There are several risks inherent in the MNCs' reasoning to not disclose a CbC report, which can be identified through the application of stakeholder theory and through a wider scope of legitimacy theory. Firstly, in relation to stakeholder theory, the MNCs' prioritization of prominent stakeholders in relation to a CbC disclosure might be inappropriate. More specifically, the MNCs' low prioritization of NGOs is the most dangerous aspect given this stakeholder group's outspoken demand for CbC reporting and given its indirect power to influence other stakeholders. In addition, the MNCs' narrow perception of relevant stakeholders in relation to CbC reporting also entails a risk since they fail to recognize potential relevant stakeholders, e.g. governmental bodies and analysts, that could affect their corporation. Finally, in relation to legitimacy theory, the MNCs' too short-sighted view on legitimacy might also be risky due to the dynamic nature of the concept. More specifically, if other MNCs start to disclose a CbC report, MNCs not disclosing might be seen as illegitimate and consequently incur additional costs such as higher risk premiums and customers losses.

Although there are arguments in favor of a proactive approach, i.e. a disclosure of a CbC report, to limit risks related to an inappropriate prioritization of the prominent stakeholders, a too narrow perception of relevant stakeholders and a too short-sighted view on legitimacy, this measure might not be necessary for all MNCs. More specifically, factors such as the MNC's business activities, transfer pricing characteristics, customer base and competitive position affect the need for a proactive approach to manage legitimacy. To exemplify, the need for a proactive approach is the most crucial for MNCs with scrutinized business activities, arbitrary transfer pricing characteristics, highly engaged consumers and a weak competitive position.

It can however be questioned whether any MNC currently is ready to take a proactive approach. Firstly, it does not appear as if MNCs in general are organizationally prepared for a disclosure and its consequences. Secondly, since such an approach, unless a valid explanation can be given, assumes congruence between the

MNC's tax practices and the values of the society it also raises the fundamental question whether MNCs actually share the society's view on how far MNCs' corporate social responsibilities in relation to tax extend.

7.1 Contribution

This thesis contributes to research on voluntary disclosures in two different ways. First, although tax has been the focus of this study, the results highlights the way in which Swedish MNCs reason in relation to voluntary social disclosures. More specifically, the results show that MNCs' decision process is very focused upon the costs of disclosing as well as the actions of other corporations, and not necessarily on the benefits of taking a proactive approach in managing legitimacy. Hence, Swedish MNCs' disclosure practices can mainly be explained by using proprietary cost theory, institutional theory and only partly by the use of legitimacy theory. Secondly, using stakeholder theory and a wider scope of legitimacy theory, this study also reveals that Swedish MNCs' reasoning on voluntary social disclosures has inherent risks. These risks are related to an insufficient prioritization of prominent stakeholders, a too narrow definition of relevant stakeholders and a too short-sighted view on legitimacy. Overall, this study suggests that Swedish MNCs should review their decision to not disclose a CbC report and further that they, given the fact that the circumstances can change quickly, should review their organization and their practices to ensure that those are in line with the expectations of society so that MNCs at least are ready for the need of a future reactive disclosure.

In relation to previous literature, this thesis contributes with a more in-depth understanding of a decision to not disclose voluntarily in terms of tax. More specifically, this study for example finds support for Cormier et al.'s (2005) claim that past reporting routines and competitors affect voluntary disclosure decisions. In addition, the findings of this thesis also support Prencipe's (2004) claim that proprietary costs in particular limit the incentive for corporations to voluntarily disclose segment information. Using theoretical concepts on voluntary disclosures, the study also contributes to previous literature by highlighting the inherent risks of MNCs' reasoning in relation to a voluntary disclosure decision.

7.2 Limitations and Future Research

The findings, conclusions and contributions mentioned above should, as within any other study, be viewed with a critical eye. In relation to the empirical design of this study, the use of a multiple case study implies limited possibilities for generalizations. Consequently, one can question whether proprietary cost theory, institutional theory, stakeholder theory and legitimacy theory actually are useful for explaining voluntary tax disclosure decisions in other MNCs than those investigated. Further, since the empirical evidence mainly is based on interviews, it can be questioned whether enough people and/or the *right* people were interviewed to retrieve the accurate picture. This limitation goes for both the four case companies and for the prominent stakeholders. In addition, due to the sensitive nature of tax, one can further question whether the interviewees have been comfortable enough to answer all questions honestly. Finally, the use of an abductive approach have, due to the continuous development of the interview questions, affected the possibilities for perfect comparisons and thus the presented findings.

In relation to future research, this study provides a benchmark for new multiple case studies on voluntary tax disclosures. To begin with, it could be beneficial to replicate this study on a different sample of MNCs, either on other Swedish MNCs or on foreign MNCs, in order to strengthen the results of this thesis or to find contrasting evidence. Further, if more corporations start to disclose, and it becomes possible to use an appropriate quantitative method, it could be value-adding to empirically test the findings of this thesis, e.g. test whether proxies for the proprietary cost theory actually explain a non-disclosure of a CbC report. The abovementioned suggestions on future research could also be beneficial to apply on another emerging topic within CSR and voluntary social disclosures.

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9 Appendix

Primary Sources

Interviews

MNC Representatives

CSR Manager, Basic Materials Corp	(March 13, 2015: 30 min)
CSR Manager, Consumer Goods Corp 2	(March 30, 2015: 45 min)
CSR Manager, Industrial Goods Corp	(March 6, 2015: 45 min)
Tax Manager, Consumer Goods Corp 1	(March, 10, 2015: 60 min)
Tax Manager, Consumer Goods Corp 2	(March 30, 2015: 45 min)
Tax Manager, Industrial Goods Corp	(March 27, 2015: 45 min)

Consultants

Consultant, BigFour 1	(March 12, 2015: 60 min)
Consultant, BigFour 1	(March 12, 2015: 60 min)
Consultant, BigFour 2	(March 13, 2015: 45 min)
Consultant, BigFour 2	(March 25, 2015: 60 min)
Consultant, BigFour 3	(March 18, 2015: 45 min)
Consultant, BigFour 3	(March 25, 2015: 60 min)
Consultant, BigFour 4	(March 18, 2015: 60 min)
Consultant, BigFour 4	(March 18, 2015: 60 min)

Representatives from Prominent Stakeholders

Fredric Nyström Head of Responsible Investments, Öhman	(March 17, 2015: 30 min)
Ossian Ekdahl Head of Communication and ESG, Första AP-Fonden	(March 26, 2015: 45 min)
Åse Botha Researcher and Head of Communications, Swedwatch	(April 9, 2015: 45 min)

Contextual Interviews

Roberth Glansberg TP Specialist, Swedish Tax Agency	(March 17, 2015: 90 min)
Per Hagman TP Specialist, Swedish Tax Agency	(March 17, 2015: 90 min)

Phone Interviews

MNC Representatives

CSR Manager, Consumer Goods Corp 1	(April 20, 2015: 30 min)
Tax Manager, Basic Materials Corp	(March 24, 2015: 45 min)

Representatives from Prominent Stakeholders
Christine von Sydow (April 10, 2015: 45 min)
General Secretary, ActionAid Sverige

Contextual Interviews
Leif Jacokobsson (May 12, 2015: 20 min)
Vice President Swedish Tax Committee

Email Correspondence

Representatives from Prominent Stakeholders
Carina Lundberg Markow (April 13, 2015)
Chief of Responsible Ownership, Folksam

Malin Eirefelt (March 27, 2015)
Reporter, Dagens Industri

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