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Is the adoption of the GRI 207 a mean to protect reputation and to avoid scandals?

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CONTENTS

ABSTRACT

The purpose of this thesis is to investigate the relationship between the transparency of sustainability practices and corporate reputation. In particular, the specific aim of the study is to understand if tax transparency is a voluntary choice of companies or if it is used as a mean in order to preserve reputation and avoid ESG related scandals.

This topic is of recent interest since, due to the Covid-19 pandemic, a lot of governments need tax revenues and are putting their focus on corporate tax planning structures. Furthermore, this topic is acquiring attention also from the private sphere since more and more investors are basing their investment decisions on corporate ESG ratings, which also consider firms' tax strategy as one of the main determinant variables. In addition to these trends, starting from January 1st, 2021, the new sustainability standard "GRI 207: Tax" is effective for reports or other materials published by companies following the principles of the Global Reporting Initiative. In particular, the GRI 207 is a standard which includes guidelines to follow in order to disclose information relating to:

- The management approach to tax;
- The tax governance and control framework, the reporting mechanisms for concerns of unethical or unlawful behavior in relation to tax, and the assurance process for matters of tax disclosure;
- Stakeholder engagement and management of concerns related to tax;
- Country-by-country reporting on the tax jurisdictions where the entities operate and are resident for tax purposes.

Consequently, in order to analyze this current issue which puts in comparison sustainability and corporate reputation, this thesis will start with a general introduction regarding the sustainability and sustainable development concepts, then it will introduce the common practice of Corporate Sustainability (required everyday more and more to companies by stakeholders), and then it will illustrate the main corporate reporting tools and sustainability standards used by organizations.

In the second part of the paper, there will be an in-depth analysis of the new GRI 207 standard relating to tax disclosure and transparency and then, in the third part – the one which introduces the real scope of this work – an investigation regarding the relationship between sustainability and reputation is presented. In this phase, a lot of attention will be

given to the public exposure of organizations to the public opinion and to medias for their "fiscal behavior" and tax strategy, in relation to the reputational risks connected to that kind of information. Reputation can be considered as an intangible asset to be protected from possible scandals and tax transparency has become a material topic to be included in corporate strategies and to be externally communicated in a clear way towards stakeholders, mainly due to the ever-increasing attention of medias, politicians, non-governmental organizations and others third parties to tax matters and to the strategic role played in the achievement of the goals of the United National Global Sustainable Agenda (since tax revenues are seen as a contribution of organizations to the local economies where they operate in order to allow social developments and investments with the aim of creating long-term value).

Lastly, it will be conducted an empirical and comparative analysis of about 60 of the Fortune Global 500 companies which adopt the GRI Framework and which pertain to the following industries (classification in accordance to the NACE Rev. 2 Codes): Arts, Entertainment and Recreation, Construction, Financial and Insurance Activities, Information and Communication, Transportation and Storage, Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles. In this way, it will be assessed if Corporate Governance characteristics, industrial sectors, geographical locations and sustainability-related indicators (like the ESG Controversies Score and the Tax Fraud Score) have an impact on corporate tax disclosure decisions.

INTRODUCTION

The path to tax transparency is not so far anymore. This concept is being embedded rapidly by both worldwide companies and national and / or supranational legislators and regulators. The expectations are that business entities do not disclose only their tax strategies and approaches, but also their tax contributions made in the various jurisdictions in which they carry their activities. At the base of this “trend” there is the need of organizations to re-obtain trust and legitimation to operate from the general public and from their stakeholders, with the ambition of enhancing corporate reputation and avoid possible sustainability scandals coming from a lack of transparency regarding tax affairs. Worth to remember is the fact that taxes are a key factor considered in corporate decision-making processes, and most of times managerial actions are designed and taken just with the intent of minimizing corporate taxes payments through the adoption of tax aggressive behaviors which “are becoming an increasingly common feature of the corporate landscape all over the world” [1].

In this context has been introduced in 2019 the GRI 207: Tax standard by the Global Sustainability Standards Board (GSSB), which has been declared effective on sustainability reports published starting from 1 January 2021, that addresses the topic of public tax disclosure both in qualitative and quantitative terms. It is a guideline promoted also by the United Nations since fair share tax contributions by businesses is considered as a fundamental step in order to achieve the Sustainable Development Goals. “Tax transparency, honest and clear communication about companies’ approach to tax and their contributions around the world are therefore becoming essential components of sustainable corporate strategies” [2].

[1] R. Lanis, G. Richardson (2012), “Corporate social responsibility and tax aggressiveness: an empirical analysis”, Journal of Accounting and Public Policy, Vol. 31 No. 1, p. 86

[2] KPMG (2022), “The path to tax transparency in the Nordics” available at https://assets.kpmg/content/dam/kpmg/dk/pdf/Acor/2022/the-path-to-tax-transparency-in-the-nordics.pdf

Prior literature showed that the main benefits of corporate tax income disclosure are accrued particularly by governments, stakeholders, financial markets, and investors [3]. Thus, in this thesis it will be carried out an investigation on the real motivations which lead organizations to bear additional costs for gathering tax information for complying with the disclosure guideline issued by the Global Reporting Initiative. While some reporting efforts have been made due to regulatory requirements (which will be summarized in Chapter 2), others may be driven by hidden motivations like the preservation of corporate reputation from possible ethical misconducts which may attract media and public attention. According to Mgammal and Ku Ismail, "company managers with administrative capacity and a large tax reserve will have a motivation to supply disclosure if it gives truthfulness to their budgets and makes the company looks less aggressive. [...] Managers must supply further disclosure of information if they believe the costs outweigh the advantages" [4].
Due to the limited research conducted on the relationship between the corporate practice of voluntary tax affairs disclosure through the GRI 207: Tax and the intrinsic motivations guiding firms in acting transparently, this thesis fits within this new area of study and will try to produce valuable insights and contributions through a comparative analysis consisting of descriptive statistics methods on a sample of 60 companies coming from the first 250 corporations of the Fortune Global 500 list. This paper has been developed by trying to offer the reader a complete and comprehensive picture of the argument in question, by describing the actual corporate sustainability environment and trends, the new tax transparency public and private initiatives issued by national or other public organizations in the world, the relationship between corporate sustainability and reputation, and finally, an exploratory research in order to gain knowledge on why corporations decide to disclose through the GRI 207.

[3] M. H. Mgammal, K. N. I. Ku Ismail (2015), "Corporate Tax Disclosure: A Review of Concepts, Theories, Constraints, and Benefits", Asian Social Science, Vol. 11, No. 28, p. 8
[4] Ibid., p. 9

CHAPTER 1

INTRODUCTION TO NON-FINANCIAL DISCLOSURE

1.1 INTRODUCTION TO SUSTAINABILITY AND SUSTAINABLE DEVELOPMENT

Nowadays sustainability is one of the main topics discussed around the world and many countries are seeking to take concrete actions in order to tackle the new challenges related to it. This first chapter serves as a starting point in order to introduce the concepts of corporate sustainability and sustainable development.

But let's start with the term "sustainability" which has several definitions. In 1987, the United Nations Commission (the UN. Commission on the Environment and Development) defined sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs" in the Brundtland Report, also known as "Our Common Future" [5]. This definition can be categorized in the group of those where the concept is put in relation to the ability of human beings of preserving the environment and its resources for the future. According to the Merriam-Webster Dictionary, the adjective "sustainable" is defined as "of, relating to, or being a method of harvesting or using a resource so that the resource is not depleted or permanently damaged" [6]. On the other hand, there are other definitions which put more emphasis on the regulatory part of sustainability, considering it in this way as a normative concept ("the quest for sustainability involves connecting what is known through scientific study to applications in pursuit of what people want for the future" [7]).

Linked to the term sustainability, there is also the concept of sustainable development. According to the Global Reporting Initiative (GRI), "climate change, human rights, poverty – sustainable development addresses all these global issues and more. It fosters a greener,

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[5] https://www.un.org/en/academic-impact/sustainability

[6] https://www.merriam-webster.com/dictionary/sustainability

[7] L. M. Butler Harrington (2016), "Sustainability Theory and Conceptual Considerations: A Review of Key Ideas for Sustainability, and the Rural Context", Papers in Applied Geography, 2 (4), pp. 365–382 cited by https://en.wikipedia.org/wiki/Sustainability

equitable and inclusive world. […] It also supports responsible investing and targeted policymaking, paving the way for a sustainable future" [8]. The achievement of a sustainable development has reminded both developed and developing communities, organizations, governments and normal people to strive to maintain a balance between the 3Ps of the world: the planet (the environment), the people (the society) and the profit (the economy). For this reason, there is nowadays the urgent need to balance economic growth ("sustainable growth"), environmental preservation ("environmental sustainability") and human rights protection ("social sustainability") on a long-term horizon to achieve the so-called "sustainable development". According to the Organization for Economic Co-operation and Development (OECD), "green growth" is defined as "fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies" [9].

In this sense, many efforts have been made by governments, private businesses, non-governmental organizations and the United Nations in order to increase the public's awareness of the environmental and social issues, promoting in this way behaviors based on the concept that sustainability is not viewed as a standalone problem, but as an integration and interdependency between social, environmental and economic causes and effects.

Therefore, sustainability has become an essential element in the strategies and objectives of the companies around the world, due also to the ever-increasing attention to these matters by stakeholders (not just shareholders). The vision is now articulated into 3 dimensions (economic, social, and environmental), and not just one (economic). Various tools are used to represent this change of direction, like for example the Triple Bottom Line approach (developed by John Elkington in 1994), the Balance Scorecard, the G4 of the Global Reporting Initiative, the Integrated Reporting, the ethic codes, and many non-financial standards (like the AA1000, AA1000SE, UNI ISO 26000).

Additionally, the sustainable commitment asked to companies by the society can be recognized in the United Nations' "2030 Agenda for Sustainable Development" initiative, signed in September 2015 by the governments of the 193 UN member countries. The Agenda is "a plan of action for people, planet and prosperity. It also seeks to strengthen universal peace in larger freedom. […] All countries and all stakeholders, acting in

[8] https://www.globalreporting.org/public-policy-partnerships/sustainable-development/
[9] https://www.oecd.org/sti/inno/fosteringinnovationforgreengrowth.htm

collaborative partnership, will implement this plan. […] We are determined to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path. As we embark on this collective journey, we pledge that no one will be left behind" [10]. To support the ideals of this "universal" Agenda, there have been set 17 Sustainable Development Goals defined in more detail by 169 non-quantitative targets addressed to all people and institutions of the society in both developed and developing countries, with the scope of stimulating concrete actions into 3 main and interconnected areas – economic, social and environmental – and to be achieved by 2030. The ambition of creating a balanced development in the three previously mentioned dimensions led to the definition of the SDGs through a structured and bottom-up approach with a multi-stakeholder active engagement in order to obtain various insights and experiences from a plurality of bodies ("sustainable development decision making requires broad participation of all. The Division therefore aims to support the effective participation of Major Groups (as defined in Agenda 21) and other stakeholders in the UN political processes, including through efforts to build their capacity, knowledge and skills base" [11]).

As reported in the United Nations website, the Agenda is based on the principles included in the Charter of the United Nations and on the purposes of the Universal Declaration of Human Rights. It seeks to continue the mission of the Millennium Development Goals (MDGs) set in 2001 after the Millennium Declaration in 2000, and have as main mission the end of poverty and hunger; the preservation of the environment from degradation; and the achievement of peace on a global scale.

[10] https://sdgs.un.org/2030agenda

[11] https://sdgs.un.org/about

Figure 1: The United Nations' Sustainable Development Goals (SDGs)

Another program worth of notice is also the "European Green Deal" which was approved in 2020. It is an initiative based on the strategy of transforming the European Union climate neutral by 2050. In order to achieve this goal, the program is made by a set of policy initiatives by the European Commission related to the reduction of the greenhouse gases in order to demonstrate that "economies will develop without increasing resource usage. However, the Green Deal has measures to ensure that nations that are already reliant on fossil fuels are not left behind in the transition to renewable energy. The plan is to review each existing law on its climate merits, and also introduce new legislation on the circular economy, building renovation, biodiversity, farming and innovation" [12]. The European Green Deal project has the objective of boosting "the efficient use of resources by moving to a clean, circular economy and stop climate change" [13], reverting "biodiversity loss and cut pollution" [14]. Furthermore, it sets which are the investments and actions needed to achieve "a just and inclusive transition" [15].

12 https://en.wikipedia.org/wiki/European_Green_Deal

13 https://www.switchtogreen.eu/the-eu-green-deal-promoting-a-green-notable-circular-economy/

14 Ibid.

15 Ibid.

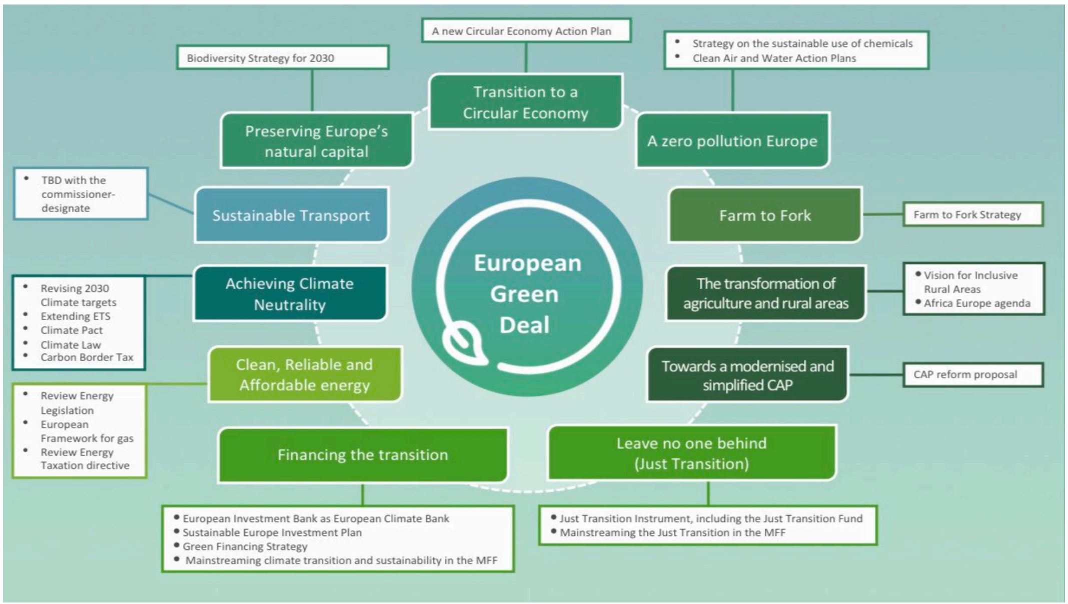

Figure 2: The European Green Deal

To sum up, sustainable development is a concept pursuing 3 main objectives: "environmental integrity, social equity and economic prosperity in the management of the business" [16]. Related to this this view, businesses should undertake their operations by recognizing their impacts on the communities around them with a long-term orientation and perspective (not just a short-term one focused on immediate rewards). Ethical behaviors associated with the implementation of concrete choices and actions (mainly consisting of medium-long-term investments and business model changes), is what it means to be corporate sustainable.

1.2 CORPORATE SUSTAINABILITY

Corporate sustainability relates to a situation in which a business operates in an ethical manner if its actions are in accordance with the culture and ethics of the society of which it is part and if those actions respect the expectations of the local communities (if they are in compliance with laws and regulations). Furthermore, a business operates in an

[16] A. Tunisini, T. Pencarelli, L. Ferrucci (2019), "Economia e management delle imprese. Strategie e strumenti per la competitività e la gestione aziendale", Milano: Hoepli, p. 414

equitable manner if its actions lead to a better distribution and employment of the resources (also richness) among people and societies.

By being sustainable, a business has to integrate social and environmental concerns in its operations and strategic thinking, by also interacting with its stakeholders in order to discuss and meet their expectations (which are not the only the financial ones of shareholders). Corporate sustainability is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-Approach"), while at the same time addressing the expectations of shareholders and stakeholders" [17]. In addition, "for an organization to be sustainable, it must be financially secure, minimize (or ideally eliminate) its negative environmental impacts and act in conformity with societal expectations" [18].

ESG issues like climate change, human rights protections and tax transparency are becoming relevant everyday more because nowadays companies suffer various pressions (both internal and external of their legal boundaries) to act in a sustainable manner. This is due to the interconnection of various interests of legislators, employees, consumers, businesses, markets and so on. Sustainability has become an outstanding phenomenon around industries and includes social, environmental, economic and governance elements. According to Lubin and Esty, sustainability is considered as a megatrend that "will touch every function, every business line, every employee" [19]. As written by the two authors, "in this new world, the sustainability strategy imperative will be systematized and integrated into the day-to-day practices of firms of all sizes in all industries" [20] and it will influence all the internal mechanisms and external outputs of organizations (from the strategic planning phase to the innovation and production ones). Meaningful is also the fact that due to recent scandals and crisis, a lot of attention has been focused on some aspects of the management of organizations, making corporate sustainable practices as a

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[17] https://www.unido.org/our-focus/advancing-economic-competitiveness/competitive-trade-capacities-and-corporate-responsibility/corporate-social-responsibility-market-integration/what-csr

[18] Ibid.

[19] D. A. Lubin, D. C. Esty (2010), "The Sustainability Imperative", Harvard Business Review, p. 8

[20] Ibid.

mean to rebuild confidence and trust in markets and stakeholders, shifting in this way from a “passive” to a “proactive” approach to sustainability [21].

However, being sustainable can also be a source of competitive advantage for those companies since they will benefit from long-term profits and higher reputation and corporate image by consumers (leading in this way to a higher probability of survival in the market). In addition, by being sustainable, some businesses may also become more efficient (operational cost savings, improved productivity and quality, efficient human resource base), and may attract ESG (Environmental, Social and Governance) investments – enabling in this way an enhanced access to capital and markets.

All these motivations can be summarized into the “ecological responsiveness” model by Bansal and Roth [22]:

- Competitiveness: "firms compete on price and quality and are now competing more on the environmental issues, as well. Competitive advantage can be gained through environmental responsibility. […] Consistent with the resource-based view, firms attempted to develop ecologically related resources and capabilities to build long-term profit potential, such as improved reputation, process efficiencies, and product reliability” [23].

  According to the paper, the increased profitability is facilitated by a better usage of natural resources due to consumers which recognize the effort of organizations by paying a superior price for the same products or services.
- Legitimation: as stated by Suchman, legitimation can be described as “the desire of a firm to improve the appropriateness of its actions within an established set of regulations, norms, values, or beliefs” [24]. Through the adoption of sustainable practices, companies gain the approval by those stakeholders which consider sustainability and the respect of the local communities in which they operate an important aspect. Companies which obtain the legitimation to operate from

[21] Stead and Stead (2008); Mio (2009 and 2010) cited by C. Mio, A. Venturelli, R. Leopizzi (2015), “Management by objectives and corporate social responsibility disclosure – First results from Italy”, Accounting, Auditing & Accountability Journal, Vol. 28 No. 3, pp. 325-364

[22] P. Bansal, K. Roth (2000), “Why Companies Go Green: A Model of Ecological Responsiveness”, The Academy of Management Journal, Vol. 43, No. 4, pp. 717-736

[23] Ibid., p. 724

[24] M. C. Suchman (1995), “Managing legitimacy: Strategic and institutional approaches”, The Academy of Management Review, Vol. 20, No. 3, pp. 571-610

related and external third parties can enjoy some benefits like the avoidance of incurring penalties, the reduction of the risks and costs associated with non-complying with local norms and regulations, and the increase of the employees' satisfaction.

- Ecological responsibility: this last motivation can be linked to what stated at the start of this paragraph – the concept of ethics. Businesses do not have to act in a sustainable way just because institutional parties expect them to do so, but also because it is an ethical responsibility from a social point of view and it is in some way the right thing to do.

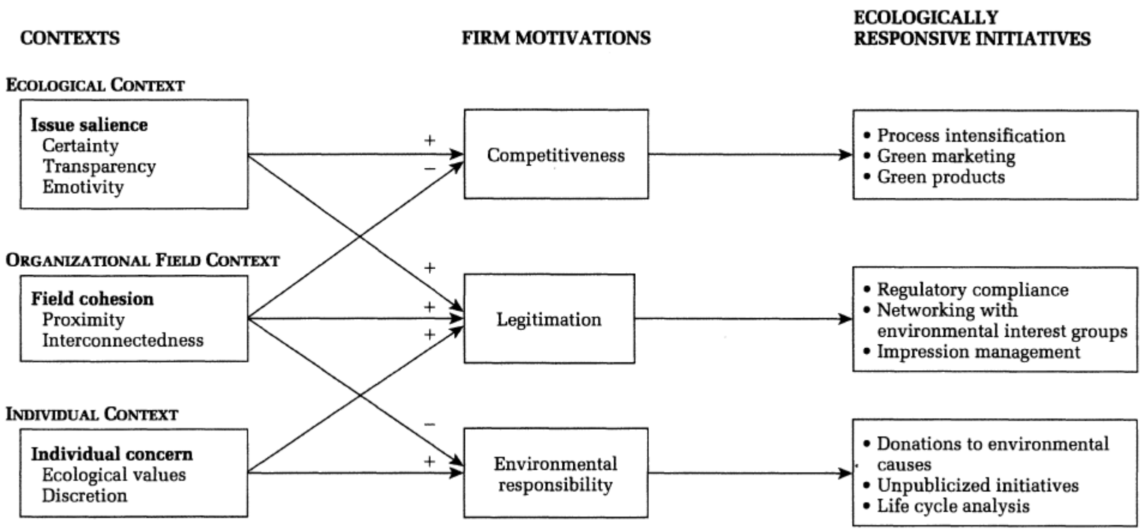

Figure 3: An Advanced Model of Corporate Ecological Responsiveness

Turning back to the Corporate Sustainability concept, Deloitte made a survey [25] where more than 2000 CxOs (Chief Experience Officers – C-suite business executives responsible for a company's overall experience and interactions with customers [26]) across 21 countries were interviewed. According to the study, CxOs' attention about climate change issues has increased over the last months, as well as has their optimism when thinking that immediate and concrete actions can make a difference to reduce this problem [27]. It

[25] Deloitte (2022), "Deloitte 2022 CxO Sustainability Report" available at https://www2.deloitte.com/content/dam/Deloitte/global/Documents/2022-deloitte-global-cxo-sustainability-report.pdf

[26] https://www.simplr.ai/learn/what-does-a-chief-experience-officer-cxo-do#:~:text=A%20chief%20experience%20officer%20(CXO)%20is%20a%20C%2Dsuite,chief%20marketing%20officer%20(CMO)

[27] Deloitte (2022), "Deloitte 2022 CxO Sustainability Report"

emerged that 89% of the interviewed CxOs recognized that there is a climate change emergency and approximately two-thirds of them referred that their companies are very concerned about climate change. It came up that "97% of companies have already felt negative impacts of climate change, and that CxOs are feeling pressure to act from their stakeholders" [28].

The study also highlights that executives are implementing some actions in order to pursue the goals of the CSR concept, like developing climate-friendly products, tying executives' compensation to sustainability key performance indicators and recquiring value chain partners to meet specific sustainability criteria [29].

Figure 4: Outside pressures to act on climate change, Deloitte 2022 CxO Sustainability Report

According to the published survey, "these leaders are more likely than others to see the benefits of their efforts and less likely to see cost and short-term priorities as obstacles—perhaps an indication they grasp the price of climate inaction" [30]. This is a good indicator since one of the drawbacks of implementing CSR practices is always associated to the high costs that an organization will undertake, and which usually "demoralizes" managers in implementing them.

For this reason, the survey explores also which are the main benefits and drawbacks of implementing sustainability actions. Brand recognition, reputation, customer satisfaction and employee morale and well-being are the most mentioned benefits, "suggesting

[28] Ibid.
[29] Ibid.
[30] Ibid.

[that] many CxOs see climate actions as beneficial to their relationships with their stakeholders" [31]. On the other hand, the major drawbacks of implementing those actions are related to the costs incurred in order to become carbon neutral, with also obstacles related to the difficulty of measuring externalities and to shareholders' pressures to focus on short-term profit maximization.
To conclude this paragraph, we can observe that even if Corporate Social Responsibility is recognized as an important practice nowadays, businesses are not properly taking a proactive behavior in order to address social, environmental and governance matters. Moreover, when addressing sustainability concerns, companies primarily think at the environmental aspect of the concept, leaving behind the other ones relating to social and governance elements.

1.3 SUSTAINABILITY REPORTING

Linked to the concept of Corporate Sustainability, it has been developed the practice of sustainability reporting. "Sustainability reporting, as promoted by the GRI Standards, is an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development" [32]. In practice, it refers to the business entities' responsibility of being accountable of their actions' impact on social, environmental and economic variables that have gained public attention during the last decade. Being accountable through a communication channel that is nowadays known as Sustainability Report, which has become also a reputational tool in order to enhance the confidence and reliability of the society and of stakeholders on the organizations' operations.
According to C. Daub, "a report can be considered a sustainability report in the strictest sense of the term if it is public and tells the reader how the company is meeting the corporate sustainability challenges. It must, in other words, contain qualitative and quantitative information on the extent to which the company has managed to improve its

[31] Ibid.
[32] GRI (2020), "Consolidated set of GRI Sustainability Reporting Standards", p. 3

economic, environmental and social effectiveness and efficiency in the reporting period and to integrate these aspects in a sustainability management system" [33].

To support what just said, if we look at the PwC's 2021 Global investor survey, financial investors say that ESG information is growing in importance when making investment analysis and taking decisions [34]. Despite that, the research conducted highlighted also some limitations in current ESG reporting, since they lack "relevant, timely, complete and comparable information [...]. Investors said they want to engage with companies on their ESG journey, but in the absence of real action and transparent communication through reporting, they will take action too – using their power to vote and, if necessary, selling their investment and walking away" [35]. Further, according to the interviewed investors, the main sources of corporate ESG information can be summarized in the following 5 points:

1. Annual and sustainability reports
2. Investor presentations and earnings calls
3. Third party data providers
4. Press releases
5. Analyst research reports

However, from the survey emerged that the quality of the information included in the sustainability reports is considered in some cases of low quality and for this reason it lacks the reliability required in order to take important financial decisions. Among the possible solutions available, the assurance of these reports by independent professional figures could be a viable one (even though it will arise then the problem of how to assure and audit non-financial information, which will require a high level of subjectivity).

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[33] C. Daub (2007), "Assessing the quality of sustainability reporting: an alternative methodological approach", Journal of Cleaner Production, 15(1), pp. 75-85 cited by C. Mio (2020), "Integrated reporting: the state of the art of Corporate Reporting", Revista Contabilidade & Finanças, v. 31, n. 83, pp. 207-211

[34] PwC's 2021 Global investor survey https://www.pwc.com/gx/en/services/audit-assurance/corporate-reporting/2021-esg-investor-survey.html, p. 1

[35] Ibid., p. 2

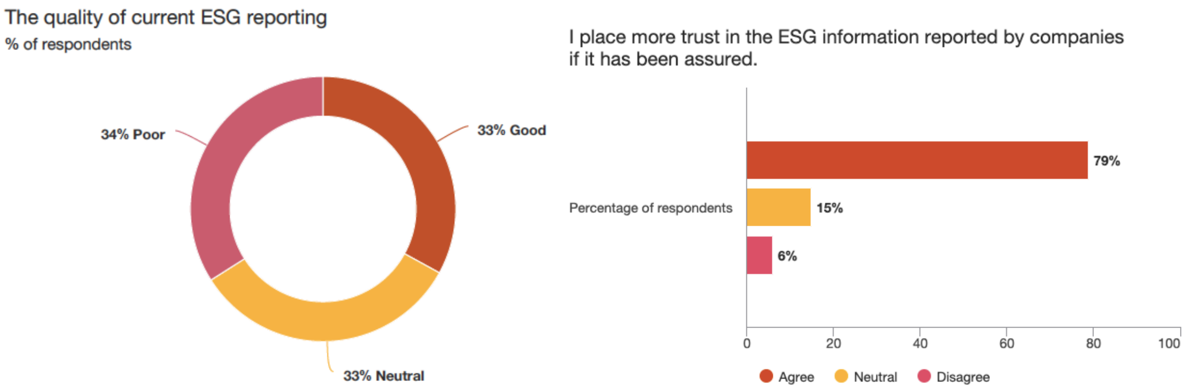

Figure 5: Quality of ESG reporting and trust on ESG information, PwC's 2021 Global investor survey

Anyway, let's take a step back in order to understand the evolution of this corporate reporting practice. Starting from the concept of corporate disclosure, it is fundamental to point out that companies have to disclose data in order to keep the efficiency of capital markets since providers of financial funds need corporate information in order to allocate their resources in an efficient way and to catch investment opportunities (this concept has its origins in the "lemons problem" theory presented by Akerlof in 1970 [36]). As written by the authors Gary K. Meek, Clare B. Roberts and Sidney J. Gray, voluntary information disclosures "represent free choices on the part of the company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual report" [37]. Although, disclosing private information has not only benefits (like increasing the organization's credibility and attractiveness in the eyes of the stakeholders), but it could have also some

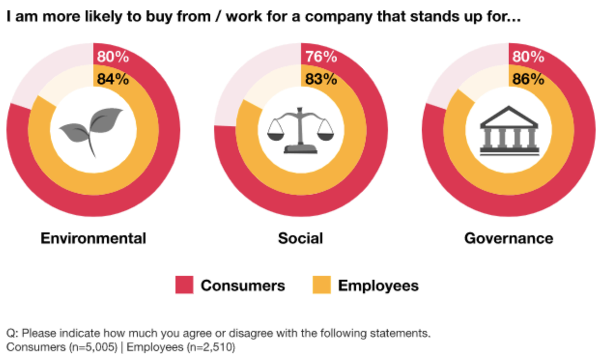

Figure 6: ESG commitments are driving consumer purchases and employee engagement, PwC Consumer Intelligence Series, 2021

[36] In 1970 A. Akerlof wrote in the paper "The market for 'lemons': quality uncertainty and the market mechanism" that in a situation of information asymmetry between buyers and sellers – where the sellers are better informed on the quality of the goods to be sold in comparison to the buyers – there is not market efficiency and the market could collapse due to the fact that sellers could exploit the asymmetry in the transaction for their own interests.

[37] K. Meek, B. Roberts, J. Gray (1995), "Factors Influencing Voluntary Annual Report Disclosures by U.S., U.K. and Continental European Multinational Corporations", Journal of International Business Studies, Vol. 26, No. 3, pp. 555-572

drawbacks, mainly due to the leakage of sensitive information that may lead to the loss of competitive advantage.

In any case, non-financial information disclosure is needed every day more during these last years due to the increasing demand by stakeholders of taking into consideration other important non-financial elements when assessing the state of the business of an organization. "Long-term prospects and intangible elements, for example, are two inherent aspects of non-financial disclosures and are rarely considered within the context of financial disclosures" [38].

BENEFITS OF NON-FINANCIAL DISCLOSURE		
Increased organizational attractiveness	Increased probability of strengthening trust relationship with stakeholders	Increased opportunity to comprehend the organization's future ability to generate value and strategy
Enhanced organizational credibility and reputation, positive publicity and exposure to media	Increased accountability of the firm's impacts on ESG variables	Improved management decisions
Differentiation from competitors	Attraction and retention of satisfied employees	Increased transparency

Figure 7: Benefits of non-financial ESG information disclosure

As a matter of fact, the European Union issued the Directive 2014/95/EU [39] which made mandatory in some countries the reporting on nonfinancial disclosure, putting on the same level non-financial and financial information in terms of obligatoriness, assurance, and compliance [40]. Also with the 2021 Proposal for a Directive of the European Parliament

[38] C. Ittner, D. Larcker (1998), "Are non-financial measures leading indicators of financial performance? An analysis of customer satisfaction", Journal of Accounting Research, 36, pp. 1–46 cited by C. Mio, A. Venturelli (2012), "Non-financial Information About Sustainable Development and Environmental Policy in the Annual Reports of Listed Companies: Evidence from Italy and the UK", Corporate Social Responsibility and Environmental Management, 20, Wiley Online Library, p. 344

[39] "The NFRD applies to large public-interest entities with an average number of employees in excess of 500, and to public-interest entities that are parent companies of a large group with an average number of employees in excess of 500 on a consolidated basis. […] The NFRD introduced a requirement for companies to report both on how sustainability issues affect their performance, position and development (the 'outside-in' perspective), and on their impact on people and the environment (the 'inside-out' perspective)" in Proposal for a Directive of the European Parliament and of the Council (2021), (amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting), p. 1

[40] C. Mio (2020), "Integrated reporting: the state of the art of Corporate Reporting", p. 207

and of the Council (amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014 as regards corporate sustainability reporting), the European Union made a step forward towards non-financial disclosure since with this introduction – which Member States shall implement by December 1st, 2022 (article 5.1: "Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Articles 1 to 3 of this Directive by 1 December 2022. They shall immediately inform the Commission thereof. Member States shall provide that the provisions referred to in the first subparagraph shall apply for financial years starting on or after 1 January 2023" [41]) – it requires:

- To extend the scope of the reporting requirements to additional companies, including all large and listed companies (except listed micro-companies). So, it is not mandatory anymore to just those large-listed companies with more than 500 employees and to public companies that are parent of a large group of companies with more than 500 employees. In this way, the number of reporting companies increases from approximately 11 700 to approximately 49 000 (75% of the turnover of all limited liability companies);
- To assure sustainability information to increase reliability and credibility (since currently only the 30% of the large companies seek some form of assurance);
- That more detailed specification of the information that companies should report are given and requirement to report in accordance with the mandatory EU sustainability reporting standards;
- That all information is published as part of companies' management reports, and disclosed in a digital, machine-readable format (digital tagging).

All these amendments have been done to the existing Non-Financial Reporting Directive (NFRD) of 2014, in order to overcome the current limitations characterizing the existing legal framework. The main issues of the NFRD can be summarized as: uncertainty that information needs of users are met ("because some companies from which users want sustainability information do not report such information, while many that do report sustainability information do not report all the information that is relevant for users" [42]);

[41] Proposal for a Directive of the European Parliament and of the Council (2021), (amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting), p. 64
[42] Ibid., p. 2

lack of reliability and comparability of information reported between companies; non-financial information often difficult to find and rarely available in a machine-readable digital format; under-disclosure of information on intangibles – including internally generated ones – even though they represent the majority of private sector investment in advanced economies (e.g. human capital, brand, and intellectual property and intangibles related to research and development). For all these reasons, currently there is a gap regarding what the company discloses about sustainable matters and what the users expect to read in order to make conscious and effective financial decisions on capital allocation (that take into consideration even the sustainability risks of their investments). In addition, this gap "also hampers stakeholders' ability to hold undertakings accountable for the impact they have on people and the environment, creating an accountability deficit liable to undermine the efficient functioning of the social market economy" [43].

1.3.1 ANNUAL REPORTING

The common corporate reporting tool that we are accustomed to is the Annual Report, which is a financial report published every year and which presents to the company's stakeholders and other related third parties (both internal to the company and external), the last year true and fair representation of the financial situation, in order that expectations regarding the near future of the business can be formulated. Even though they are addressed to every stakeholder who is interested on the truthful representation of the "health" situation of the company, in reality those reports pursue a defined goal: giving relevant information to a specific group of users – the financial community – in order to take informed and conscious financial decisions. However, in order to be consistent with this overriding aim, a lot of other relevant information are excluded, creating in this way a sort of "bias" for financial users when making decisions. Moreover, when we analyze financial reports, we can see that the process of preparation involves the gathering of past financial information coming from different departments and areas of the company, creating in this way just a sort of comprehensive "puzzle" of the past financial events, but without taking into consideration other important sources of non-financial capital that are essential to the business' long-termism value creation.

[43] Ibid., p. 3

According to the IAS 1 (the standard regarding the components of financial statements, which was revised in 1997, 2003, 2004 and 2007), the annual reports typically contain 5 mandatory elements: the balance sheet (or statement of financial position), the income statement (or statement of comprehensive income), the cash flow statement, the statement of changes in equity and the Notes that explain those statements and the methods used for preparing them.
All these statements are prepared following particular rules and standards, that may vary according to the country in which the reporting company has its headquarters or has been incorporated. Those accounting differences may depend upon various variables, like: the legal system (if it is a common law country or a civil law one), the culture, the nature of the providers of capital/finance (if it is a country which relies a lot on capital markets/stock exchanges to rise funds, or if it is a country which relies more on financial institutions like banks), the taxation system, the strength of the accounting profession, the macroeconomic external sources of influence, the degree of conservatism of the accounting rules/standards (if they require a more prudent behavior), the method to measure the assets (at fair value or at historical cost), and the format of the financial statements (e.g. if they are presented in the two-sided format or not, and the order of liquidity followed to list the various items). Even though there are all these variables that may differ from one country to another, there is the willing to create a common framework of standards for all companies in the world, in order to increase the comparability of the various financial statements to cope with the increasing globalization of capital markets (people of different countries investing in foreign stock exchanges), and in order to improve the clarity and understandability of the financial information by the users. The most common frameworks, in addition to each country specific accounting policies, are the IFRS and the US GAAP.
If the Annual Report is a form of mandatory financial information disclosure, prior to the Sustainability Report there are two other forms of voluntary non-financial information disclosure: the Balance Scorecard assessment tool and the Triple Bottom Line approach.

1.3.2 BALANCED SCORECARD

An assessment tool developed to integrate financial information with non-financial ones is the "balanced scorecard". It was developed by Robert Kaplan and David Norton in 1996 and was initially intended as an instrument for managers to direct and control the organization's internal activities. This strategic performance metric served various objectives, like for example putting a focus not just on the short-term results, but also on the long-term ones; linking the performance indicators not only to the profit, but also to other outcome indicators like the customer's satisfaction; using non-financial indicators to make conjectures about future financial results, obtaining in this way a more balanced overview of the situation; having a more comprehensive view of operations by putting together all the various and disparate activities in a single report, in order to see if an improvement in one area may have been obtained at the expense of the other.

In this sense, the balanced scorecard implements financial measures with operational ones like customer satisfaction, internal processes, and learning and growth, which combined are the source for future long-term prosperity and survival for an organization. However, the balanced scorecard framework does not include sustainability variables and measures, and for this reason later in time was added the fifth pillar creating in this way the Sustainability Balanced Scorecard, with the new vital indicators for organizational strategies nowadays.

According to the authors Frank Figge, Tobias Hahn, Stefan Schaltegger and Marcus Wagner, "the ability of the BSC to integrate the three dimensions of sustainability offers the possibility to integrate the management of environmental and social aspects into mainstream business activities". [44]

1.3.3 THE TRIPLE BOTTOM LINE APPROACH

One of the consequences of the balanced scorecard is the Triple Bottom Line (TBL) approach. It is a framework developed in 1994 by John Elkington (a business writer who

[44] F. Figge, T. Hahn, S. Schaltegger, M. Wagner (2002), "The Sustainability Balanced Scorecard – linking sustainability management to business strategy", Business Strategy and the Environment 11, p. 272

claims to have coined the term) and it is made by three main lines: the social, environmental (or ecological), and financial ones. It is called Triple Bottom Line because in accounting, when we refer to the "bottom line" we usually mean the ending result of the period under consideration: the profit or loss of the business. Here we have three bottom lines since we do not consider only the ending financial result of an organization, but also the other two sustainable dimensions mentioned before. With the Triple Bottom Line approach there is the creation of a model through which companies, when creating value added, have to look at the same time at the social context (community, human capital and social equality), at the environment (production processes that are as ecological as possible) and at the generation of economic value (profit).

As said also at the beginning of this chapter, companies are now asked to put their attention not only on financial results, but also on other matters pertaining to social and environmental fields and to include them into their business models. With the introduction of the TBL, organizations began to understand that a focus just on profit, ignoring the other two Ps of the "3Ps" concept – People, Profit and Planet – did not lead to a successful business in the medium and long-run. As Elkington said, the TPL "wasn't designed to be just an accounting tool. It was supposed to provoke deeper thinking about capitalism and its future" [45]. He put in this way the grounds to the transparency concept that led organizations to start disclosing sustainability issues through sustainability reporting, and as Ante Glavas and Jenny Mish wrote, "TBL firms offer a model for understanding how businesses can address environmental and social goals while also being profitable" [46].

However, due to the lack of standards and principles in order to define the indicators of the Triple Bottom Line approach, it could be difficult to evaluate and assess the operations of a business in relation to the sustainability notion. For this reason, the subsequent and more comprehensive level after the TBL is the Sustainability Report.

[45] J. Elkington (2018), "25 Years Ago I Coined the Phrase "Triple Bottom Line." Here's Why It's Time to Rethink It", Harvard Business Review available at https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it

[46] A. Glavas, J. Mish (2015), "Resources and Capabilities of Triple Bottom Line Firms: Going Over Old or Breaking New Ground?", Journal of Business Ethics, Vol. 127, No. 3, pp. 623-642

1.3.4 SUSTAINABILITY REPORTING

Sustainability reports are the direct consequence of 2 main issues: the limitations of the typical Annual Reports, and the growing awareness of social/environmental matters. For what concerns the first cause – the traditional Annual Reports limitations – we have different gaps that emerged during the years and that sustainability reports need to tackle: the fact that the world is changing and that financial reports, due to their financial nature, cannot incorporate all those information that are now considered relevant (even if not financial); the decreased reliability and credibility of those reports since they do not provide a complete picture of the business; the fact that, for the reasons previously said, there are missing elements and information, providing in this way a reduced true and fair representation of the company's state of the business; some past financial scandals; the lack of non-financial data regarding the social and environmental impact of the firm; the inability to evolve in a coherent way with changes in the economy; the increased complexity and length of those reports (providing also irrelevant information, not respecting in this way the materiality principle); the past orientation that does not help so much investors in understanding and predicting future performance expectations and long-term value creation; and lastly, the fact that financial information do not provide relevant and useful insights about how the operations are managed (since they adopt the so-called "legalistic vision").

The second driver involves the increasing awareness regarding sustainability concerns. Sustainability concerns that involve mainly environmental issues (like waste management, resource consumption, land usage, climate change) and social ones (like employee welfare, poverty, social inequalities, fair trade, and charitable contributions). The pressures coming from the society and from the regulators made companies to become responsible for their impacts (both positive and negative) also outside their legal boundaries. According to Gro Harlem Brundtland, sustainability development is "the development which meets the needs of current generations without compromising the ability of future generations to meet their own needs" [47]. In order to comply with this "ethical" development without compromising future generations' possibilities, businesses are adopting even more new social and environmental-friendly practices

[47] https://www.un.org/en/academic-impact/sustainability

inside their strategies, missions, structures, management systems, business models, and cultures.
However, when preparing sustainability reports, two approaches can be adopted by the management of organizations: the outside-in approach and the inside-out approach.

a) Outside-in approach: the management of the company is more interested in addressing the requirements and pressures coming from external parties due to future reputational benefits and to decrease the probability of scandals through a higher level of transparency and disclosure. This concept is linked to the "green-washing" practice which "is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound" [48].
b) Inside-out approach: sustainability is effectively integrated in the business model and in the organizational strategy and it is seen as an outcome to be measured through appropriate performance indicators. Sustainability is considered as a material matter to address (in order also to understand in a concrete and comprehensive way how to create long-term value), and not just a practice to include in the strategy just to comply with some constraints put in order to gain the legitimation to operate.

1.3.5 THE GLOBAL REPORTING INITIATIVE FRAMEWORK

The Global Reporting Initiative (GRI) is a non-governmental organization funded in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environmental Programme (UNEP). It is an "international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption". [49] Along with the AccountAbility body, it is the global dominant regulatory and standard setting organization for the preparation of sustainability reports. In line with what reported by KPMG in its Survey of Sustainability Reporting, in 2020 about the

[48] https://www.investopedia.com/terms/g/greenwashing.asp
[49] https://en.wikipedia.org/wiki/global_reporting_initiative

67% of the sustainability reports published by the N100 [50] were drawn up following the GRI principles or standards (with the remaining 33% following stock exchange or other standards or guidelines). As written it the World Benchmarking Alliance organization website, "GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being". [51]

The GRI initiative was born with the intention of overcoming most of the critical issues affecting the social and environmental reports drawn up by companies, like the excessive variety and diversity of languages used when talking about the same argument; the difficulty to verify information and the vague nature of them (which made these reports just self-referential and greenwashing tools); and the overlaps and redundancy of information – not following in this way the materiality principle.

The need for regulatory agencies can be seen also as a direct consequence to the need of making information disclosed in sustainability reports relevant and reliable to the users of these documents. Since the origins of the GRI, its main focus has always been the research of efficient tools to comprehend and communicate the businesses' impacts on the society – in relation to the material issues of climate change, human rights and governance – in a transparent way. "The GRI Standards create a common language for organizations and stakeholders, with which the economic, environmental, and social impacts of organizations can be communicated and understood. The Standards are designed to enhance the global comparability and quality of information on these impacts, thereby enabling greater transparency and accountability of organizations. Sustainability reporting based on the GRI Standards should provide a balanced and reasonable representation of an organization's positive and negative contributions towards the goal of sustainable development". [52]

As reported in the citation above, a report can be qualified as in accordance with the GRI standards if it provides a balanced and exhaustive image of the organizational activities and their impacts (and how those impacts are mitigated and managed). Moreover, a

[50] "The N100 refers to a worldwide sample of 5,200 companies. It comprises the top 100 companies by revenue in each of the 52 countries and jurisdictions researched in this study" in "The time has come: the KPMG Survey of Sustainability Reporting 2020" available at https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf

[51] https://www.worldbenchmarkingalliance.org/wba-allies/global-reporting-initiative-gri/

[52] GRI (2020), "Consolidated set of GRI Sustainability Reporting Standards", p. 3

company when using these guidelines, can decide to use selected GRI standards (also just parts of them), or the entire set of standards. However, when publishing the report, they have to specify if they used the Core or the Comprehensive option. Usually, the Core option is the basic one that is used to facilitate those companies which report on sustainability dimensions for the first time, since the Comprehensive one is more complex and complete. However, in general a business chooses the option that better satisfies both its reporting needs and the requirements of its stakeholders. Therefore, the choice of one criterion rather than the other does not affect the quality of the report or the performance of the organization, but it only reflects the degree with which the report follows the GRI guidelines.

The GRI standards are continuously amended and revised to improve the disclosure of ESG data in sustainability reports. The first guidelines were developed in 2000, followed by improved versions year after year, until the introduction of the GRI 207: Tax in 2019, which is the main argument of this thesis (that will be further discussed in the next chapters).

As described by the GRI organization, these standards are "a modular system" consisting of two series of standards: the GRI Universal Standards (with the requirements and principles for using the GRI Standards and the guidelines about the organization's topics to disclose), and the GRI Topic-specific Standards (with the specific information on material topics to report divided into three macro-categories: economic, environmental and social).

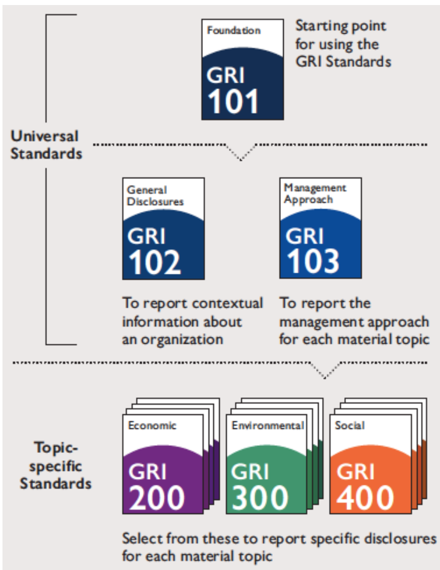

Figure 8: Overview of the set of GRI Standards

The starting point of this framework can be found in the GRI 101 in which are defined the Reporting Principles in order to classify the report's contents and the report's quality of information disclosed. The principles used to help organizations in identifying the relevant contents to be disclosed in order to prepare a report that contains a reasonable and balanced representation of performance, are guidelines which take into consideration the sector of the company, the expectations and needs of its stakeholders, and the impacts on the society. These principles are all expressed in conditional terms given the voluntary nature of the preparation of the document and can be summarized in the following points (taken from the GRI 101): [53]

- Stakeholder inclusiveness: the reporting organization shall identify its stakeholders, and explain how it has responded to their reasonable expectations and interests;
- Sustainability context: the report shall present the reporting organization's performance in the wider context of sustainability;
- Materiality: the report shall cover topics that: (1) reflect the reporting organization's significant economic, environmental, and social impacts; or (2) substantively influence the assessments and decisions of stakeholders;
- Completeness: the report shall include coverage of material topics and their Boundaries, sufficient to reflect significant economic, environmental, and social impacts, and to enable stakeholders to assess the reporting organization's performance in the reporting period.

Meanwhile the principles to be followed in order to assess the quality of the information disclosed and their truthful representation are very specific:

- Accuracy: information have to be disclosed in a detailed way, without omitting anything (only in cases of sensitive information to be protected);
- Balance: organizations have to report both positive and negative information with the same importance and emphasis in order to present a true and fair image of the businesses' impacts and actions;
- Clarity: information have to be disclosed in an understandable way in order that users of reports can be able to make conscious decisions;

[53] GRI (2020), "Consolidated set of GRI Sustainability Reporting Standards", pp. 8-12

- Comparability: the information disclosed in sustainability reports have to be comparable and consistent over time and over business;
- Reliability: information have to be trustable and reliable;
- Timeliness: information have to be updated.

Reporting Principles for defining report content	Reporting Principles for defining report quality
• Stakeholder Inclusiveness	• Accuracy
• Sustainability Context	• Balance
• Materiality	• Clarity
• Completeness	• Comparability
	• Reliability
	• Timeliness

Figure 9: GRI 101 – Reporting Principles

In conclusion, the GRI framework is a widely adopted guideline with a stakeholder-centric orientation. It is a framework available to any organization of any sector, size or location since it contains both general and sector-specific topics which are universally applicable and that have been developed taking into consideration the needs of a wide range of stakeholders from all over the world. It contains both general standards regarding, for example, reporting principles that shall be followed, the element that must be reported and the management approach to each material subject; but then there are also topic-specific ones, relating primarily to 3 governance approaches' dimensions: the economic one (GRI 200), the environmental one (GRI 300), and the social one (GRI 400).
All these standards and guidelines have been developed and created by engaging a multi-stakeholder process, that involved different interested groups from the business world, labor context, auditors, the society, representatives of financial markets, and other experts. For this reason, it is in its nature the aim of enhancing the dialogue between organization and the surrounding society and territory in which the business operates. In can be considered as a tool which fosters the seek for legitimation to operate and to enhance the reputation of companies through the adoption of a certified and recognized set of standards. At the same time, through the GRI principles, an organization can map its stakeholders and understand their needs that have to be taken into consideration in their internal strategies in order to continue to create value in the medium and long run.

Furthermore, the adoption of the framework is on a voluntary basis for those organizations that intend to communicate their performance in accordance with the triple-bottom-line approach.

Finally, the GRI initiative suggests the use of external assurance to increase the report's credibility, even though it does not impose it. As written in the organization's website, "the use of external assurance for sustainability reports is advised, but it is not required in order to make a claim that a report has been prepared in accordance with the GRI Standards". [54] According to the CSR Works website, the term external assurance refers to "seeking an independent evaluation of performance data published in sustainability reporting. […] Robust external assurance provides enhanced confidence in the quality, reliability and accuracy of an organization's sustainability data. The external assurance process also helps organizations to improve their reporting processes, data management and accountability which in turn boosts sustainability performance". [55] However, it is worth to highlight the fact that we use the term "assurance" and not "audit" when we talk about non-financial information, since the nature of the engagement is much more limited with respect to the one done with financial information.

To conclude, by following the GRI guidelines, the Sustainability Report becomes a sort of guide to set the future strategies and plans of actions for businesses around the world, by taking into account the operations' impacts in the economy, environment and society. After all, as Nadja Picard and Gilly Lord said, "it makes sense that a business operating in a way that has a negative impact on the planet and its people will — in the short, medium or long term — have a negative impact on the business itself, and a corresponding effect on its enterprise value. In the long run – which is where sustainability standards focus – enterprise value and impact align". [56]

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[54] https://www.globalreporting.org/how-to-use-the-gri-standards/questions-and-answers/pre-2021-gri-standards-system-faq/writing-a-report-in-accordance-with-the-standards/#anchor6

[55] https://csrworks.com/assurance/#:~:text=External%20assurance%20refers%20to%20seeking,credibility%20of%20their%20sustainability%20reports.

[56] https://www.pwc.com/gx/en/services/audit-assurance/corporate-reporting/esg-global-sustainability-standards.html

1.3.6 INTEGRATED REPORTING

Last, another corporate reporting tool is the Integrated Report, which is the direct consequence of some limitations embedded in the Sustainability Report. It started as a project called "Pilot Programme" in 2011, with a number of selected companies (selection based on some characteristics like: how the companies run operations, if they were well-performing businesses, and if they had the will to develop global best practices) from various sectors and industries in order to reach the aim of developing a complete set of widely adopted principles.

As said before, the main objective was to overcome the problems characterizing the Sustainability Report, and these issues can be traced back to: the low reliability and confidence that financial capital providers/investors and other stakeholders have on the information provided by these reports (because they are based on voluntary disclosure – so there is no legal consequence in case of misrepresentation – and since they are just assured and not properly audited); the reluctance of traditional investors not yet accustomed to consult sustainability information when making financial decisions; the lack of connectivity between financial and non-financial performance and data; the fact that sustainability reports are seen as a good practice, but not so indispensable (e.g. they do not influence the company's possibility to obtain a loan); the fact that sustainability information are not commonly used when making strategic plans; the common practice of greenwashing through which companies choose to showcase good performance on sustainability matters by hiding failure in order to not compromise their reputation; the fact that sustainability reports are too long and contain too much facts and details, not respecting in this way the materiality principle and by not giving the right relevance to the prioritized matters; and lastly, the fact that sustainability reports are difficult to assure (difficult to use thresholds, high degree of subjectivity in the materiality determination process, difficult to assure future oriented information, difficult to understand if the reporting boundaries are appropriate, and so on), and are very expensive to prepare in order to meet the expectations of sustainability standards frameworks like the GRI or SASB. For all these main reasons, a new framework has been introduced by the International Integrated Reporting Council (now Value Reporting Foundation, since it merged in 2021 with SASB). The main mission of the Council is to enable the practice of integrated thinking within business practices in all companies, allowing in this way an efficient and productive capital allocation to maintain a financial stability and to promote a sustainable development. With the term "integrated thinking", they make reference to the practice of involving in an active way every unit or department of the organization with the six types of capitals (financial, manufactured, intellectual, human, social and relationship, natural) that the entity uses or affects both inside and outside its legal boundaries. Furthermore, "integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term". [57] Even though the target audience of <IR> are financial investors, also all the other stakeholders (like customers, suppliers, competitors, local communities, regulators, employees, etc.) benefit from these integrated reports. The <IR> Framework is not standard based like the GRI, but it is principle based. This means that there are not specific indicators, measures or rules on each specific matter (like a checklist), but there is just a small number of broad principles and requirements that have to be applied. This is done with the aim of enabling an acceptable degree of flexibility while maintaining comparability across the various companies' reports. However, even if there is not a sort of checklist and flexibility is allowed, information omissions must be explained (e.g. unavailability of reliable data, specific legal prohibitions, or disclosure would cause significant competitive harm – according to the "safe harbor" principle).

To conclude this paragraph illustrating the main corporate reporting tools at companies' disposal, worth of attention is the fact that there is not a perfect corporate disclosure report. Each of them presents some benefits and some drawbacks that could be mitigated by using an integration of various models developed in order to depict a more comprehensive and exhaustive view of the ESG dimension of an organization. If the Balanced Scorecard highlights the need to balance both financial and non-financial information to allow the management to make conscious and appropriate decisions, the Triple Bottom Line approach highlights the importance of conveying those kind of information also to external stakeholders of the firm. On the other hand, if the Sustainability Report underlines the importance of ESG issues, the Integrated Report can be considered as an "higher level" form of communication which tries to integrate all these data in a unique report which aims at representing the value creation model of the

[57] Ibid., p. 53

organization linked to all the sources of capital that is uses and influences. With the Integrated Report there is further step towards the internalization of the sustainability concept inside the boundaries of the legal entity and, as Mio said, it is a tool which tries to introduce in the business' logics the concept of "extended governance", which is the involvement of multiple stakeholders and the inclusion of the sustainability variables in the strategic thinking and decision-making. [58] Corporate sustainability becomes in this way a key success factor for companies and according to Raine Isaksson and Ulrich Steimle, "today many corporations understand that enduring success depends on various stakeholder groups and on the resources they deliver. That does not concern only tangible resources but also intangibles such as employee qualification, information, network access or legitimacy. For a corporation's survival legitimacy of its activities and outcomes is critical because it is considered the social license to operate on which every business depends". [59]

Anyway, a lot of organizations claim that these ESG communicating practices are time consuming and require a higher level of attention and commitment of resources when preparing a report. Nevertheless, even if reporting mechanisms are complex and expensive, there is an urgent need to involve the small minority of organizations which do not report on ESG matters since this misalignment may create risks for them (if sustainability risks are not included in the risk management strategies, businesses will find themselves unprepared to face these new issues) and may leave them a step behind the global economy which is continuously evolving. This theory is supported also by Accenture which found out that "leadership teams that build sustainability into the DNA of their organizations are better able to deliver financial value and wider stakeholder impact. In fact, those with the most deeply embedded sustainability management practices outperform peers by 21% on both profitability and positive environmental and societal outcomes". [60]

[58] C. Mio (2005), "Corporate Social Responsability e Sistema di Controllo: verso l'integrazione", FrancoAngeli, Milano

[59] R. Isaksson, U. Steimle (2009), "What does GRI-reporting tell us about corporate sustainability?", The TQM Journal, Vol. 21, No. 2, p. 170

[60] Accenture (2021), "Shaping the Sustainable Organization – How responsible leaders create lasting value and equitable impact for all stakeholders", p. 2 available at https://www.accenture.com/_acnmedia/Thought-Leadership-Assets/PDF-5/Accenture-Shaping-the-Sustainable-Organization-Executive-Summary.pdf

In conclusion to this paragraph regarding the corporate reporting methodologies, explicative is the below table prepared by Fasan in which there are summarized the main characteristics and scopes of the three main reporting tools explained before.

	ANNUAL REPORTS	SUSTAINABILITY REPORTS	INTEGRATED REPORTS
TARGET	Specific stakeholders (shareholders and investors)	Several stakeholders (social and environmental perspective)	Primarily providers of financial capital
MANDATORY/VOLUNTARY	Mandatory	Voluntary (with some exceptions: Denmark, Sweden, France)	Voluntary (with some exceptions: South Africa)
REGULATION OR GUIDELINES	National and International laws and GAAP (or IAS/IFRS)	Global Reporting Initiative (GRI)	IIRC framework
COMPARABILITY	High	Medium	Low
INDUSTRY CUSTOMIZATION	Low	Medium (sector supplements)	High
ASSURANCE LEVEL	High	Low	Low
SCOPE	Financial reporting entity (company or group of companies)	Broader than financial reporting entity (supply chain, LCA approach)	Broader than financial reporting entity (supply chain, LCA approach)

Figure 10: Annual reports, sustainability reports and integrated reports [61]

[61] M. Fasan (2013), "Annual reports, sustainability reports and integrated reports trends in corporate disclosure", Integrated Reporting, Springer International Publishing, p. 50

CHAPTER 2

RESPONSIBLE TAX

2.1 TAX AS A SUSTAINABILITY INDICATOR

A recent growing trend of importance among the interests of the civil society and governments is the one which sees the public sphere asking to multinational organizations to disclose what amount and where they pay their tax contributions. According to activists, there is a problem of under-taxation of these global businesses that leads to the failure of the progress in developing countries [62]. As explained in the previous chapter, in order to achieve a sustainable development, global actors have to behave in a manner which leads to the economic growth without compromising and depleting natural resources and by redistributing resources and wealth in the communities where they operate. Christians argued that during the last decade of global financial crisis, developed and rich countries undertook some operations in order to save their economies and deficits, while at the same time huge multinational corporations were making record profits, highlighting in this way the increasing financial inequality and poverty in the society [63]. In addition to the global crisis, also tax scandals like the ones of LuxLeaks (large corporations cycling billions of dollars through tax havens – in this case Luxembourg – to avoid tax payments), the Panama Papers (leaked documents on about 200 thousand offshore companies) and the Paradise Papers (leaked documents on offshore investments) which disclosed tax-avoidance structures, increased the public attention to corporate tax behaviors. Tax avoidance – which can defined as the arrangements of alternative and technically legal transactions and structures with the aim of reducing tax liabilities in a way which is not in accordance with policies or moral expectations of a

[62] M. H. Mgammal, K. N. I. Ku Ismail (2015), "Corporate Tax Disclosure: A Review of Concepts, Theories, Constraints, and Benefits", p. 1

[63] A. Christians (2013), "Tax activists and the global movement for development through transparency" cited by M. H. Mgammal, K. N. I. Ku Ismail (2015), "Corporate Tax Disclosure: A Review of Concepts, Theories, Constraints, and Benefits", p. 1

government legislation [64] – becomes a sustainability problem since global businesses making huge financial results by mainly carrying out their activities in developing countries and by using public resources, were contributing in a very minimal part to the public revenues of those nations. According to OECD, tax avoidance leads to about US$ 100 - $ 240 billions of loss in tax revenues annually (4 - 10% of the total corporate income tax base of the world) [65]. It is straightforward to say that there is an issue, and that this behavior does not lead to a sustainable development of all the areas of the world in an equitable and balanced manner. For this sake, in the last years many countries have adopted some initiatives and measure with the aim of increasing tax transparency.
National governments need public funds to provide non-excludable goods and resources (public goods which are at the disposal of all the individuals of the society and that cannot exclude certain individuals from benefitting them) not only to private persons, but also to private businesses (which on the other hand usually provide excludable goods). Through tax evasion and avoidance, the financial viability of governments is eroded leading to the inefficient operations of governments to support the society. It is not only a social problem, but also a business problem since the revenues collected by public authorities allow, for example, the functioning of a judicial and legal system which enforces contracts, and which solves disputes; the functioning of a public education system which develops individuals with specific skills and knowledge that sustain the competitive advantage of firms; and the functioning and existence of a public-funded infrastructure which allow the movement of goods and services [66]. Taxes benefit organizations' welfare also by fostering

[64] Z. M. Prebble, J. Prebble, J (2010), "The morality of tax avoidance", Creighton Law Review, 43(3), 693–745

[65] https://www.oecd.org/tax/beps/#:~:text=The%20Inclusive%20Framework%20on%20Base,the%20OECD%20%2F%20G20%20BEPS%20Package.

[66] B. R. Baldock, D. M. Ebel, P. J. Kelly, C. F. Lucero, M. R. Murphy, J. J. Porfilio, S. K. Seymour (1997), "Judicial Independence: A discussion with judges of the United States court of appeals for the tenth circuit", Denver University Law Review, 74, 355–373; M. E. Porter, M. R. Kramer (2011), "Creating shared value", Harvard Business Review, 89(1–2), 1–17; A. K. Mehrotra (2005), "Envisioning the modern American fiscal state: Progressive-era economists and the intellectual foundations of the U.S. income tax", UCLA Law Review, 52, 1793–1866 cited by R. Bird, K. Davis-Nozemack (2018), "Tax Avoidance as a Sustainability Problem", Journal of Business Ethics, 151(4), p. 6

and encouraging innovation, investments (also sustainable ones), worker productivity and the efficient usage of resources [67].

Basically, business actors which undertake tax evasion and tax avoidance practices enjoy the benefits coming from public goods and services indispensable for their activities, but do not want to contribute to the sustainment of the system.

In addition to the sustainable development reason, there is also a further motivation which has brought out this topic: the debate among academics, economists, and politicians to replace the usual method to measure and define the degree of welfare of an economy and its society through the steady growth of the gross domestic profit (GDP), with a new approach which takes into consideration other economic, social, and environmental indicators. This led to the concept of "Beyond GDP" which gave the name also to a conference organized by the European Commission, the European Parliament, the Club of Rome, the OECD, and the WWF organizations in 2007. In addition to these starting points, there is also the "Report by the Commission on the Measurement of Economic Performance and Social Progress" – the Stiglitz-Sen-Fitoussi-Report – issued in 2009 which collects some contributions by academics and politicians around the world, discussing about alternative methods to assess economic, social, and ecological growth and development [68]. This shift is very interesting since GDP is not seen anymore as a macroeconomic formula which takes into consideration only economic factors like consumption, investments, government spending and net exports; but is seen as a welfare measure that includes other indicators which relate to the sustainability dimension.

For this reason, "given the level of tax ratios in industrial countries, reaching about 40 percent of GDP on the EU average, tax policy can be expected to exert a significant influence on decisions of private firms and households on production and consumption as well as on labor supply and demand and thus on their respective contributions to the sustainability of the lifestyle of economies and societies. Moreover, tax policy has a considerable potential to change the market distribution of incomes and wealth and is therefore one important factor influencing individual well-being as well as social cohesion" [69].

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[67] H. Gribnau, A. G. Jallai (2019), "Sustainable Tax Governance and Transparency", S. Arvidsson (ed.), Challenges in Managing Sustainable Business, p. 345

[68] M. Schratzenstaller (2015), "Sustainable Tax Policy: Concepts and indicators beyond the tax ratio", Revue de l'OFCE, No. 141, p. 58

[69] Ibid., p. 59

Tax systems do not have to be designed with the ambition of promoting just economic growth by setting corporate tax rates which are in competition to attract businesses. They have to be designed with the aim of integrating relevant aspects of the sustainability dimension. As stated by the United Nations, taxation is an important mean to enable the achievement of the SDGs of the 2030 Agenda. This is because tax revenues and taxation policies are tools used by governments to redistribute resources, reduce wealth inequalities, and promote sustainable consumption and production methods [70].

Thus, also the UN Tax Committee is involved in the ambitious project of reaching the 17 Sustainable Development Goals "through the promotion of international tax cooperation and provision of practical guidance on domestic as well as international tax matters and through its inclusive methods of work, with multi-stakeholder and multidisciplinary approaches" [71].

Therefore, the role of taxation is not just as the one of a compulsory imposition burdening on citizens and legal entities in order to cover government expenditures, but it is also a tool for achieving a sustainable development which requires international cooperation to reduce tax avoidance, tax-related illicit financial flows, and harmful global tax competition [72]. A sustainable tax system can be beneficial for all the three dimensions of the concept of sustainability – economic, environmental and social – by facing some of the issues and challenges becoming relevant nowadays. Economic sustainability relates to the long-term stable and balanced growth without impacting negatively other elements of the social and environmental context, like for example through low impact production methods (e.g. organic farming). A "responsible" tax system fits itself in this dimension by being a tool for enriching the States' coffers in order to achieve a healthy and stable financial position and to sustain a long-term growth of a country's wealth – mainly after the recent and current financial crisis.

Then, we have the environmental sustainability which refers to the preservation of natural resources and the global ecosystem. It is considered as one of the main pillars of the sustainability concept since without the planet, the society and the economy would not exist. Taxation is everyday more linked to environmental issues, in particular it

[70] https://www.un.org/development/desa/financing/what-we-do/ECOSOC/tax-committee/thematic-areas/taxation-and-sdgs

[71] Ibid.

[72] Ibid.

usually addresses topics like climate change, energy transition and natural resources usage. For what concerns climate change, very common are carbon taxes through which governments make emitters pay for the tons of greenhouse gases that they emit. It has become a common tool to stimulate business actors to switch to greener production technologies and to make them reduce the emissions, which are a negative externality hitting the communities around them.

For what concerns energy transition, usually governments use subsidies in order to incentivize the adoption of renewable energies. According to the International Renewable Energy Agency, "subsidies to clean and renewable energy (environmentally friendly subsidies) can help to improve the efficiency of capital allocation across the energy sector. This is because externalities stemming from fossil-fuel use – notably the costs imposed on society from their associated air pollution and climate change – are not typically fully priced" [73]. Lastly, there are taxes on the depletion of natural resources like minerals, oil, gas, and on activities like fishing and forestry. According to Mastellone, "green taxes" are economic instruments through which governments can both encourage or change certain business behaviors, while at the same time collecting tax revenue which could substitute tax reductions in other types of taxes [74].

Moving to the social sustainability pillar, taxes can be a mean to overcome social inequalities and disparities regarding the concentration of wealth and income [75]. To summarize, taxation should minimize employment barriers, limit the pay gap between different genders, redistribute the wealth in a more equitable manner, stabilize the economic and financial system, support green behaviors and investments, internalize negative externalities impacting the society in order to grant environmental sustainability, and enable a sustainable development of all the areas of the globe.

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[73] M. Taylor (2020), "Energy subsidies: Evolution in the global energy transformation to 2050", International Renewable Energy Agency, Abu Dhabi

[74] P. Mastellone (2014), "The emergence and enforcement of green taxes in the European Union—Part 1", European Taxation, 54(11), p. 482

[75] M. Förster, A. Llena-Nozal, V. Nafilyan (2014), "Trends in Top Incomes and their Taxation in OECD Countries", OECD Social, Employment and Migration Working Paper, p. 54

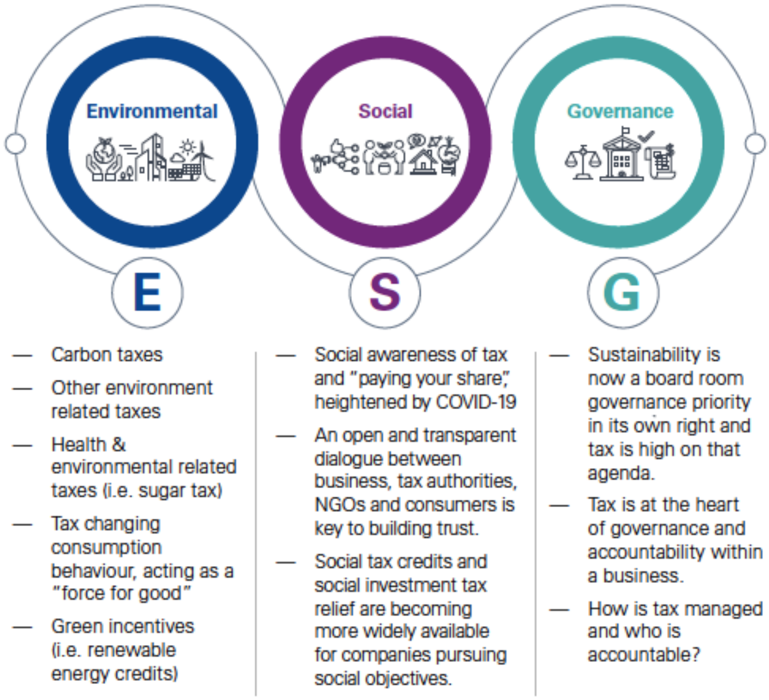

Figure 11: ESG and taxation [76]

But let's see now how we can use taxation as a metric for sustainability. First of all, an indicator can be defined as "a summary measure that provides information on the state of, or change in, the system that is being measured" [77]. In particular, a sustainability indicator is "a measurable aspect of environmental, economic, or social systems that is useful for monitoring changes in system characteristics relevant to the continuation of human and environmental well-being" [78].

Since taxation is an understandable, communicable, comparable, accurate and reliable metric, it can be considered as a sustainability indicator. It is acquiring importance for external stakeholders which are more concerned on income tax behaviors, on the degree of tax responsibility, on tax strategies and policies, and on the level of economic contributions that businesses (in particular multinational organizations) make to the local societies in which they operate across countries and jurisdictions [79]. Thereby,

[76] KPMG (2021), "Navigating tax transparency May 2021 KPMG Tax Impact Reporting", p. 3
[77] J. Fiksel, T. Eason, H. Frederickson (2012), "A Framework for Sustainability Indicators at EPA", National Risk Management Research Laboratory Office of Research and Development, U.S. Environmental Protection Agency, p. 2
[78] Ibid., p. 6
[79] J. Egert, M. Callaghan (2021), "Responsible tax – Tax as an essential part of your ESG agenda", BDO, p. 2

organizations are required to publish more transparent reports about tax and to adhere to new standards like the GRI 207, the OECD/G20 Principles of Corporate Governance and the International Business Council (of the World Economic Forum Stakeholder Capitalism Metrics). Some examples of tax indicators which put in relation the tax metric to the sustainability dimensions are:

	Economic sustainability	Social sustainability	Environmental sustainability
Inheritance and gift tax	+	+	0
Net wealth tax	+	+	0
Real estate tax	+	+	0
Capital transfer taxes	-	+	0
Environmental taxes	+	-	+
Sin taxes (tobacco, alcohol)	+	?	0
Value added tax	-	-	0
Personal income tax	-	+	0
Social security contributions	-	-	0
Corporate income tax	-	+	0
Tax exemptions	-	?	(-)[1)]

Source: Own. + positive impact. – negative impact. – 0 neutral. - ? impact unclear/ambiguous. - 1) in case of environmentally harmful tax exemptions.

Figure 12: Qualitative assessment of potential impact of different tax categories [80]

All these indicators can have an important role on tax systems since tax policy makers can use them in order to assess and measure the impact of taxes on the sustainable development of the society. They can serve as a quantitative method to calculate and investigate the possible linkages between sustainability variables and tax systems characteristics. Moreover, as we can see from the table above, a single tax can have multiple and/or conflicting effects on different sustainability dimensions. If we take for example the corporate income tax, from a private economic point of view, the organization suffers a "loss" because there is a reduction of profits which could be reinvested to make further improvements or could be distributed to shareholders; on the other hand, the impact on the social dimension is positive since the tax revenue collected could be used to generate welfare and create infrastructures indispensable for the community. However, these divergent impacts should be taken into consideration by tax

[80] M. Schratzenstaller (2015), "Sustainable Tax Policy: Concepts and indicators beyond the tax ratio", p. 68

policy makers in order to assess which of the two dimensions should be prioritized or if trade-offs are necessary [81].

Among the indicators in the table, corporate taxation is the one which will be further discussed in this thesis since it is considered as a vital contribution to support social development in communities where firms operate.

To conclude, as stated by the B Team – an association of business leaders and NGOs promoting sustainable business practices, "responsible tax can no longer be viewed as solely a technical [matter] for finance or tax department" [82], instead it is a crucial variable indispensable for the functioning of the society. Nowadays, tax strategies and procedures are even more incorporated in the assessment valuations of ESG investments (like the Dow Jones Sustainability Index) and M&A transactions in order to comprehend possible tax-related risks and implications that may arise in the future.

2.2 CORPORATE TAX TRANSPARENCY

The previously mentioned tax-based indicators are useful data elaborations to monitor the sustainability progress of a population, but fundamental are also the private tax information that some companies voluntarily disclose to the public in their sustainability, financial or tax reports. Tax disclosure or tax transparency can describe two different scenarios: "the first is the legal requirement to provide current taxation information to the other party. The second is related to transactions that may be viewed as tax sheltering that must be disclosed to the government when filing income taxes" [83].

Generally, businesses consider taxes as a cost and for this reason it happens that they engage in practices which have the goal of reducing as low as possible this profit and loss account item that reduces revenues. These practices are usually referred to as "aggressive tax strategies" and are motivated by pure financial objectives: maximizing shareholders' value and preserving the competitive advantage. According to the United Nations

[81] Ibid.

[82] https://www.internationaltaxreview.com/article/b1wf47j08pclsz/esg-tax-transparency-the-global-journey

[83] C. Francois (2012), "Tax disclosure", Para 1.2 cited by M. H. Mgammal, K. N. I. K. Ismail (2015), "Corporate Tax Disclosure: A Review of Concepts, Theories, Constraints, and Benefits", p. 2

Principles for Responsible Investment (PRI), aggressive tax planning means "taking advantage of the technicalities of a tax system or of mismatches between two or more tax systems for the purpose of reducing tax liability" [84]. Further, aggressive tax strategies may create extra risks for firms related to earnings, reputation, and brand, which may compromise and influence the long-term ability of creating value and profit [85]. As some studies showed, there is a positive relationship between the number of tax-related information disclosed and the media exposure of a company, and also there is a relationship between the adoption of aggressive tax behaviors and the lower effective tax-rates incurred. As reported by Hardeck and Kirn, in the UK media coverage on aggressive tax behaviors is consistent and research showed that "firms with lower effective tax rates, negative media coverage in tax matters, and affiliation with the extractive and high-tech sector have a higher disclosure level. Companies with negative media coverage in tax matters tended to have a higher reporting level than those without negative press" [86]. Further, findings of Lanis and Richardson suggest that also the adoption of CSR initiatives influence in a negative way tax aggressiveness [87], however, further research by the two authors showed that "tax aggressive corporations have greater CSR disclosures to alleviate potential public concerns arising from the negative impact of their tax aggressiveness on the community, and to show that they are meeting community expectations in other ways" [88].

Some examples of unethical tax behaviors involve the reduction of the taxable income by using transfer prices to shift income to subsidiaries which are registered or operate in low tax-rate jurisdictions (set a higher price to subsidiaries in high tax-rate countries – to reduce revenue – while charging a lower price for branches in low tax-rate countries –

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[84] A. Karananou, A. Guha (2015), "Engagement guidance on corporate tax responsibility: Why and how to engage with your investee companies", PRI, p. 35

[85] M. De la Cuesta González, E. Pardo (2019), "Corporate tax disclosure on a CSR basis: a new reporting framework in the post-BEPS era", Accounting, Auditing & Accountability Journal, Vol. 32 No. 7, p. 2168

[86] I. Hardeck, T. Kirn (2016), "Taboo or technical issue? An empirical assessment of taxation in sustainability reports", Journal of Cleaner Production, Vol. 133, p. 1338

[87] R. Lanis, G. Richardson (2012), "Corporate social responsibility and tax aggressiveness: an empirical analysis", p. 105

[88] R. Lanis, G. Richardson (2013), "Corporate social responsibility and tax aggressiveness: a test of legitimacy theory", Accounting, Auditing & Accountability Journal, Vol. 26 No. 1, p. 93

lower costs which leads to increased profits), increasing tax deductions, and using tax havens.

In the light of this new trend of increased tax transparency, many people question why it is gaining importance among stakeholders since some academics showed that tax compliance is commonly associated with lower shareholders' benefits due to the fact that by disclosing, firms have to pay a fair share of taxes which cannot be reduced through tax aggressive mechanisms. Hence, studies have demonstrated that better performing companies are not the ones which disclose more about tax-related topics. Furthermore, as a consequence of additional disclosure, costs for information gathering could increase and also uncertainty and risks coming from media and tax authorities' attention could grow, leading in this way also good tax performers to adopt a "conservative" behavior of not disclosing too much, just essential information required by supranational or national initiatives. This is the reason why corporate tax transparency is a trend which is not arising from internal dynamics but from external pressures and interests.

Among the most widely recognized theories formulated by academics on why organizations disclose tax-related private information, these are the main ones:

a) Political costs theory: the first theory makes reference to those costs that companies bear due to external pressures coming from lobby groups which are able to impose some behaviors after political actions. One example describes fair tax disclosure practices as actions used by companies as returns-reducing methods in order to avoid paying higher wages to employees. In this way, organizations elude the pressions coming from interest groups like trade unions [89]. Furthermore, this theory explains also situations in which lobby groups exert pressure to businesses in order to obtain more information about a company's tax strategy and policy, asking in this way additional disclosure which is in some way compulsory in nature. These pressures are also the ones which led to the development of new standards like the GRI 207 on tax strategy transparency. Finally, according to Watts and Zimmerman, "companies that are subject to high

[89] R. L. Watts, J. L. Zimmerman (1990) "Positive accounting theory: A ten year perspective", The Accounting Review, 65(1), 131-156 cited by M. H. Mgammal, K. N. I. K. Ismail (2015), "Corporate Tax Disclosure: A Review of Concepts, Theories, Constraints, and Benefits", p. 3

political costs (which highly relies on the size of the firm) are probably to supply and disclose further information about tax" [90].

b) Signalling theory: the second theory sees voluntary disclosure about tax-related topics as a mean to signal to stakeholders a good belief about the state and behavior of the business and its management. It is a method frequently used to alter the belief that people have about something by channeling the image that we want them to have. Signaling is a tool essential for decreasing agency costs (between shareholders and the management) and information asymmetries (between organizations and market actors). As reported by Mgammal and Ismail, "firms with superior performance (good firms) utilize financial information (including tax information) to send signals to the market, users, and IRS" [91]. In this way, signaling can be also used as a reputational tool in order to avoid scandals (by conveying positive beliefs to tax authorities like the IRS) and to enhance the business' image at the eyes of stakeholders (disclosing fair and sustainable tax strategies may attract, for example, new ESG investors and consumers).

c) Legitimacy theory: the last theory is based on the belief that "legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" [92]. As end result, the legitimacy theory leads in some way to achieving the same objective of the signalling theory: gaining trust, confidence from the society and from institutions, and enhancing reputation and corporate image in order to obtain the social legitimacy to continue to operate. To make an example, tax disclosure would explain legitimacy theory when the company discloses tax information on where and in what amount it pays taxes in order to make the community know that it contributes to the development of that geographical area and in what measure.

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[90] R. L. Watts, J. L. Zimmerman (1978), "Towards a positive theory of the determination of accounting standards", The Accounting Review, 53(1), 112-134 cited by M. H. Mgammal, K. N. I. K. Ismail (2015), "Corporate Tax Disclosure: A Review of Concepts, Theories, Constraints, and Benefits", p. 3

[91] M. H. Mgammal, K. N. I. K. Ismail (2015), "Corporate Tax Disclosure: A Review of Concepts, Theories, Constraints, and Benefits", p. 4

[92] M. C. Suchman (1995), "Managing legitimacy: Strategic and institutional approaches", Academy of Management Review, 20(3), pp. 571-610

Confirming these theories is what Kao reports in his paper: voluntary information disclosure leads to higher costs to be incurred by companies which conduct tax avoidance mechanisms. In addition, sociopolitical theories suggest that organizations which behave in illegal ways by avoiding large sums of taxes, use voluntary disclosure of certain tax information as a legitimation tool to reduce the public attention to their tax strategies and policies [93]. By being under constant external pressures, evidence showed also that poor performing firms are the ones which disclose more information about tax strategies with the ambition of changing the stakeholders' belief about their performance (signaling theory).

Organizational ownership is also a determinant influencing the disclosure choices of businesses, since Desai and Dharmapala found out that companies which are subject to high institutional ownership demonstrate a positive link between tax avoidance and market-to-book, highlighting the fact that the degree of tax avoidance depends on the monitoring powers of investors [94]. Additionally, most rating agencies use ESG rating indexes and scores which evaluate investments also by taking into consideration companies' ESG behaviors and their approach to corporate tax transparency.

Decisions on strategies and disclosure are in the hands of the governance bodies of firms which are the ultimate responsible for their behaviors. For this reason, an ethical behavior is fundamental for the long-term and sustainable value creation. Transparency is also indispensable to judge if tax practices and strategies are in line with the firms' ESG programs and objectives, considering that stakeholders, institutional bodies, and the society as a whole expect reliable tax information and fair share tax contributions.

As said by the International Tax Review, "in-house tax policies are helping to direct Environmental, Social and Governance (ESG) outcomes to increase investment and limit reputational risks for large companies" [95]. Since the public is increasing its attention on fair tax practices, tax information disclosure is a voluntary trend which a number of

[93] WC. Kao (2019), "The Relation between Tax Avoidance and Voluntary Disclosures of Taxation in United Kingdom", p.1 available at https://scholarspace.manoa.hawaii.edu/server/api/core/bitstreams/d899eff1-eb9b-4fe9-bf79-5bbde8064b60/content

[94] M. Desai, D. Dharmapala (2009), "Corporate tax avoidance and firm value", Review of Economics and Statistics, 91(3), pp. 537-546

[95] https://www.internationaltaxreview.com/article/b1qcqbp3cw8mp2/tax-is-advancing-esg-outcomes-at-uber-and-other-large-businesses

organizations around the world are following in order to avoid damages to reputation and to continue to have the social legitimacy to operate. "Boards' of Directors are increasingly seeking to implement a culture of no surprises within their organizations when it comes to tax risk [...]. Not being aware if adverse media attention is around the corner is an increasing risk, one that is only heightened in the wake of the pandemic. Today's challenge for CFOs and Tax Directors is to determine how much they are at risk and how best to respond if challenged" [96].

Looking at real world data, FTSE Russel (a global provider of benchmarks, analytics and data solutions) found out that in a sample covering 1300 global large listed companies, the 45% of them were adopting at least one disclosure scheme or framework on tax information. The 35% of them implemented some policies or commitments to tax transparency responsibility; 23% demonstrated that the Board oversight the management system related to tax risks; and the 7% adopted the country-by-country reporting practice [97]. From this research, the authors noticed a lack of commitment towards tax transparency with respect to other sustainability issues, a lack of quantitative data and a major focus on qualitative information like the publication of tax policies and strategies. Further, Europe is the most developed continent for tax disclosure practices and the sectors which disclose more tax-related data are the basic materials (extractive sector tax transparency initiatives were the first ones developed), health care and technology ones (the last two sectors are among the ones which disclose more due to the higher tax risks they face, even though they are the least likely to publish quantitative information) [98].

[96] J. Egert, M. Callaghan (2021), "Responsible tax – Tax as an essential part of your ESG agenda", BDO, p. 3

[97] E. Bourne, C. Dodsworth, J. Kooroshy (2021), "Global trends in corporate tax disclosure", FTSE Russel, p. 4

[98] Ibid.

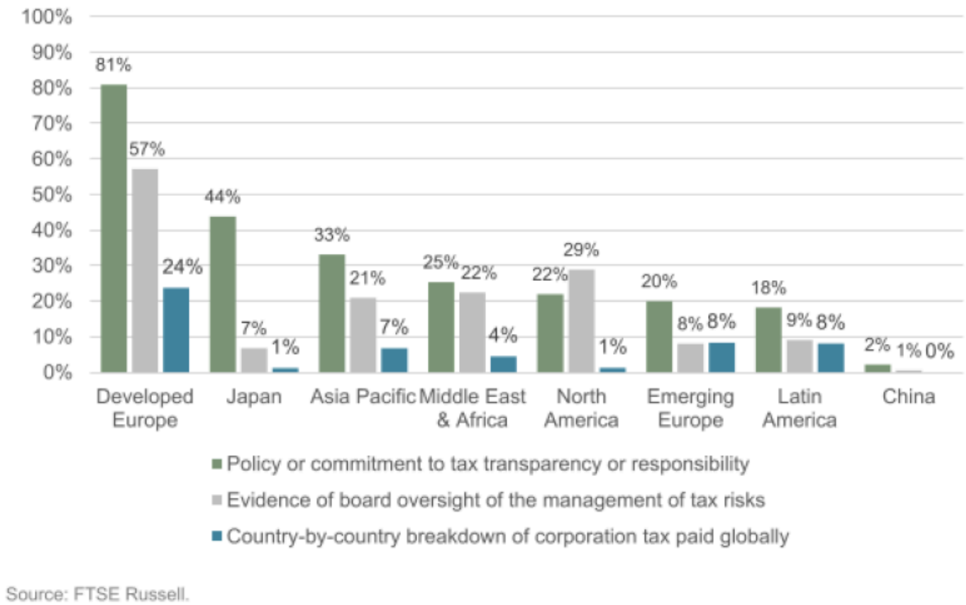

Figure 13: Proportion of companies reporting on key tax issues by region [99]

To conclude this paragraph about corporate tax voluntary disclosure, explicative is this sentence coming from the World Economic Forum: "An increasing interest in societal impact is pushing firms to go beyond simply "playing by the rules" and demonstrate how their behavior is consistent with the firm's broader purpose. For example, efforts to improve transparency around tax strategy demonstrate a shift from reporting compliance towards articulating why an approach is appropriate" [100].

De la Cuesta and Pardo through their study confirm that due to higher social and normative pressures, in addition to the media exposure and recent tax scandals, businesses are in some way "forced" to embrace more responsible tax practices [101]. From their interviews came up that "companies and their tax advisors orient tax practices towards what they consider to be the shareholders' priorities. Financial risks associated with irresponsible corporate tax practices, such as fines and reputational damage, may lead shareholders to promote more responsible tax behavior" [102]. Transparency becomes in this way a response to the threat of media exposure and to the increasing need for justification to stakeholders.

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[99] Ibid., p. 13

[100] World Economic Forum (2020), "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation", p. 13

[101] M. De la Cuesta González, E. Pardo (2019), "Corporate tax disclosure on a CSR basis: a new reporting framework in the post-BEPS era", p. 2185

[102] Ibid.

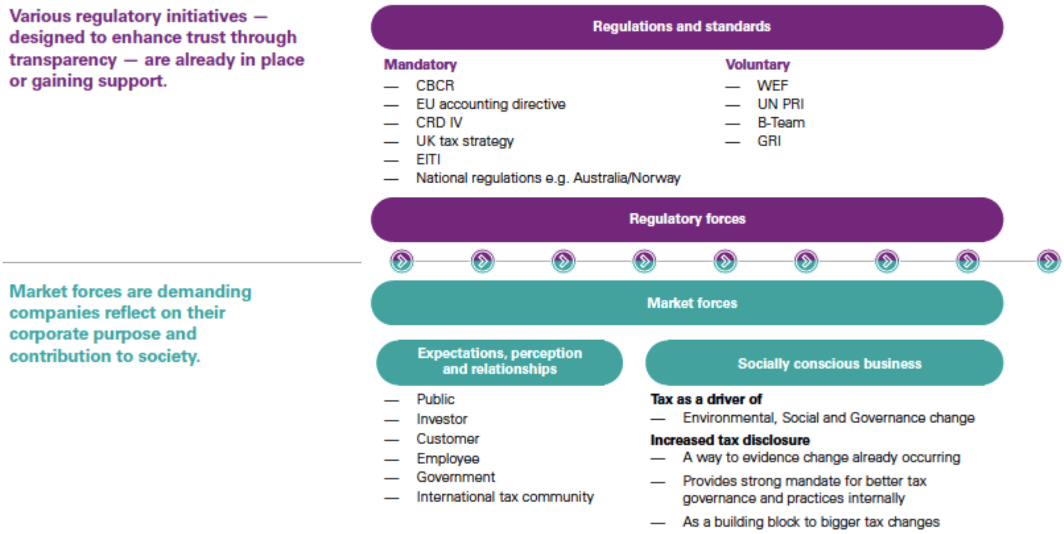

Figure 14: Drivers of tax transparency [103]

2.3 GRI 207: TAX 2019

In the previous paragraphs of this chapter, we have seen the importance of tax in achieving a global sustainable development and the 17 Sustainable Development Goals. Corporate taxation is a main driver since firms have to contribute in a fair way to the progress and growth of developing and developed countries with the ambition of achieving better social, economic, and environmental conditions for everyone. ESG dimensions are increasingly influencing corporate reporting practices, making them evolve from a merely financial report to a comprehensive disclosure of also non-financial and sustainability information which have to be seen in an integrated manner.

As a result, in 2019 the Global Reporting Initiative published a new standard which marks the base of tax reporting: the GRI 207 – Tax 2019. The standard came into effect on reports published on or after 1 January 2021 and it is "the first global reporting standard that supports public disclosure of a company's business activities and tax payments on a country-by-country basis" [104]. The aim of this introduction is to make multinational

[103] KPMG (2021), "Navigating tax transparency May 2021 KPMG Tax Impact Reporting", p. 4

[104] https://www.globalreporting.org/standards/standards-development/topic-standard-project-for-tax/

organizations more transparent and comprehensible about tax strategies and management approach, where they pay taxes and in what amount. As all the other GRI principles, its adoption is voluntary and they act as an help to the reporting process of a company which wants to disclose tax information on sustainability or integrated reports. Although the standard is voluntary in nature, for some sectors it is highly recommended to use it like for example the International Council on Miningand Metals which requires minerals industry businesses to comply with the GRI standards.

The GRI 207 is part of the topic-specific standards, precisely of the economic series (GRI 200) which “address the flow of capital among different stakeholders, and the main economic impacts of an organization throughout society” [105]. Even though businesses have to disclose tax information only if they retain this topic material, tax should always be included in sustainability reports since tax footprint and impacts are at the base of each ESG variable and influence a lot of them. For this reason, this standard can be used by every organization, despite its size, sector, industry, or geographical location (also for those who do not report accordingly to the GRI Framework but want to make tax information disclosures).

In accordance with what said previously, businesses have the responsibility to act in a fair way in order to meet the stakeholders’ expectations. If through tax strategies an organization accomplishes to reduce the taxable income to be paid to governments of a jurisdiction in which it conducts its business activities, there is a welfare loss since that country’s government will have reduced tax revenue to make public investments in infrastructures (e.g. schools, transports) and services (e.g. healthcare, national defense), it will increase public debt and will impair this revenue loss by increasing tax rates to other tax payers.

As the Director of the EU Tax Observatory Gabriel Zucman recalled, near the 35% of profits shifted to tax havens – like the Cayman Islands and the British Virgin Islands – come from European and United States. Moreover, multinational organizations’ profits constitute about half of all the profits shifted to these places [106].

These mechanisms of shifting revenues and avoiding taxes lead to aggressive tax planning strategies of other companies which see these unfair practices as one of the remaining means to remain competitive. However, these unethical behaviors increase the costs

[105] GRI Standards (2020), “GRI 207: Tax 2019”, p. 4

[106] European Tax Adviser Federation (2021), Weekly Tax News – Newsletter, 4 October 2021

related to tax regulation and enforcement and cause the social losses that we have mentioned before [107].

The GRI 207 tries to solve all these problems and tries also to be associated with some benefits which companies that use it would enjoy. “Public reporting on tax increases transparency and promotes trust and credibility in the tax practices of organizations and in the tax systems. It enables stakeholders to make informed judgments about an organization’s tax positions. Tax transparency also informs public debate and supports the development of socially desirable tax policy” [108].

But let’s now analyze the contents and guidelines of the standard GRI 207: Tax 2019. The standard provides instructions on disclosure and communication of tax strategies, tax governance, management’s approach to taxation, revenue reporting, and tax payments on a country-by-country basis (“country-by-country reporting”). With the term country-by-country reporting (CbCR) we make reference to the reporting practice of outlining financial and tax-related details for each jurisdiction and country in which the company carries its activities. This is fundamental because in this way the organization defines the magnitude of its operations and the economic contributions that it makes through tax payments in each country.

Under the GRI 207 there are two main areas of disclosures: management approach disclosures and topic-specific disclosures. The disclosures consist of a set of reporting requirements and some reporting recommendations which act as a guidance. Inside the two categories there are more detailed dimensions of disclosure, which are reported in the following table.

GRI 207 TAX DISCLOSURE	
Disclosure 207-1: Approach to tax	The reporting organization shall report the following information: a. A description of the approach to tax, including: i. whether the organization has a tax strategy and, if so, a link to this strategy if publicly available;

[107] GRI Standards (2020), “GRI 207: Tax 2019”, p. 4
[108] Ibid.

	ii. the governance body or executive-level position within the organization that formally reviews and approves the tax strategy, and the frequency of this review; iii. the approach to regulatory compliance; iv. how the approach to tax is linked to the business and sustainable development strategies of the organization.
Disclosure 207-2: Tax governance, control, and risk management	The reporting organization shall report the following information: a. A description of the tax governance and control framework, including: i. the governance body or executive-level position within the organization accountable for compliance with the tax strategy; ii. how the approach to tax is embedded within the organization; iii. the approach to tax risks, including how risks are identified, managed, and monitored; iv. how compliance with the tax governance and control framework is evaluated. b. A description of the mechanisms for reporting concerns about unethical or unlawful behavior and the organization's integrity in relation to tax. c. A description of the assurance process for disclosures on tax and, if applicable, a reference to the assurance report, statement, or opinion.
Disclosure 207-3: Stakeholder engagement and management of concerns related to tax	The reporting organization shall report the following information: a. A description of the approach to stakeholder engagement and management of stakeholder concerns related to tax, including: i. the approach to engagement with tax authorities; ii. the approach to public policy advocacy on tax;

	iii. the processes for collecting and considering the views and concerns of stakeholders, including external stakeholders.
Disclosure 207-4: Country-by-country reporting	The reporting organization shall report the following information: a. All tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes. b. For each tax jurisdiction reported in Disclosure 207-4-a: i. Names of the resident entities; ii. Primary activities of the organization; iii. Number of employees, and the basis of calculation of this number; iv. Revenues from third-party sales; v. Revenues from intra-group transactions with other tax jurisdictions; vi. Profit/loss before tax; vii. Tangible assets other than cash and cash equivalents; viii. Corporate income tax paid on a cash basis; ix. Corporate income tax accrued on profit/loss; x. Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax. c. The time period covered by the information reported in Disclosure 207-4.

Table 1: Management approach disclosures and Topic-specific disclosures requirements of the GRI 207 standard [109]

[109] GRI Standards (2020), "GRI 207: Tax 2019"

The first requirement pertains to the Management approach disclosures category and asks organizations to describe their tax strategies and policies (e.g. if legal entities are registered in tax havens, if they use transfer pricing mechanisms, etc.). Details of the countries in which the strategy has been applied shall be reported (and also other strategies shall be disclosed if the same plan of action is not the same for the entire group). The standard expects also that companies provide a description of the governance bodies and the people in charge of executive positions, which are the ones which approve, review, and decide upon tax matters (tax governance). Finally, the requirement 207-1 asks for details regarding the approval and regulatory compliance approach (also the frequency), and how tax strategies adopted have a meaningful impact on the sustainable development and long-term value creation. Tax principles and the relationship between business activities and sustainability strategies have to be communicated to assess if the organization addresses the impacts on the society in which it operates and to judge its commitment to the achievement of the United Nations SDGs.

The second disclosure requirement is the 207-2: tax governance, control, and risk management which expects corporations to disclose information regarding the tax governance (executive bodies in charge of being responsible for the compliance with tax policies), how tax strategies have been implemented and embedded in the organizational daily operations, which are the mechanisms put in place in case of risks related and arising from tax variables, which is the controlling and monitoring framework, which actions will be put in place in case of unethical or illegal tax behaviors, and which is the assurance process for tax-related information.

The last Management approach disclosure is the 207-3 which requires organizations to report the stakeholder engagement process that is put in place for governing and overseeing concerns related to corporate taxation (the relationship with tax authorities, the process of collecting opinions from external and internal stakeholders, the public policy advocacy to tax).

For what concerns Topic-specific disclosures, the requirement 207-4 asks companies to report where they operate, in which jurisdictions and other specific details for each country in which they carry their activities (like how many profit do they make in that geographical area – by making also a distinction from intra-group transactions from one jurisdiction to another; the number of employees in each country for determining the scope of operations; the amount of taxes paid; the differences between the taxes paid and the statutory tax rate, and so on).

Hence, in applying the disclosure requirements from the 207-1 to the 207-3, organizations report on information which usually have already prepared since most of companies already have a tax strategy plan which has been subject to a decision-making and approval process and about which there are already written statements which define principles, practices, and rules to be implemented. Usually, companies have already plans for the management and control of the tax policies enacted and of tax risks that may arise (even more during this last period with the Covid-19 pandemic which made businesses to put more attention on risk management processes). These standards require disclosure on tax governance and how it is exercised by managers. They help stakeholders understand if a good governance is implemented, if there is a tax compliance, if business activities are ethical, and if the strategies are in line with the sustainable-related expectations. Through the disclosure of these tax information a company can increase its position of trust with respect to stakeholders and can enhance its reputation by engaging them and satisfying their expectations.

On the other hand, the GRI 207-4 requires more efforts and resources to provide the detailed information required due to their quantitative nature. These information are also the most important among the ones required by the standard since they represent the outcome and the tax performance of a company. By adopting a country-by-country reporting approach, the standard requires specific financial information (like revenue, profit, employees, assets, taxes paid, and so on) on a per country basis. The 207-4 requirement is based on the existing OECD CbCR legislation, implemented since 1 January 2016 by member countries of the G20 and OECD Inclusive Framework on Base Erosion and Profit Shifting under the Action 13 project. It sets the required actions to be undertaken by organizations in order to reduce tax evasion, aggressive tax strategies, to harmonize tax regulations and to promote tax transparency [110].

As reported by the OECD framework of the BEPS Project, "the Action 13 Report introduced […] a local file referring specifically to material transactions of the local taxpayer; and a Country-by-Country Report (CbC Report) containing certain information relating to the global allocation of the group's income and taxes, together with indicators of the location

[110] M. De la Cuesta González, E. Pardo (2019), "Corporate tax disclosure on a CSR basis: a new reporting framework in the post-BEPS era", p. 2168

of economic activity within the group (CbCR information)" [111]. It is a private initiative (since the filed reports issued by companies are addressed only to tax authorities) and applies only to groups of companies (multinational organizations) which operate in different countries, and which generate a consolidated revenue equal or higher than 750 millions of Euros. Only the parent company has to file this report and then "the tax authority with which the CbC Report is filed will exchange the CbC Report with the tax authority in other jurisdictions where the group has operations, under bilateral or multilateral tax treaties or tax information exchange agreements (TIEAs) that permit the automatic exchange of information" [112].

Thus, both initiatives ask for a country-by-country reporting regarding tax data, but the GRI 207 is more exhaustive: it integrates both management approach to taxation and CbC reporting and its aim goes beyond the one of the Action 13 project since the GRI 207 supports companies in the redaction of a proper report to be disclosed to the public (targeted to all stakeholders), meanwhile the BEPS is more a private submission of data to tax authorities of various countries which then exchange the information among themselves. In the following figure, the main differences between the two frameworks are summarized:

[111] OECD (2017), "BEPS Action 13 on Country-by-Country Reporting – Guidance on the appropriate use of information contained in Country-by-Country reports", OECD/G20 Base Erosion and Profit Shifting Project, OECD, Paris, p. 4 available at www.oecd.org/tax/beps/beps-action-13-on-country-by-country-reportingappropriate-use-of-information-in-CbC-reports.pdf

[112] Ibid.

	GRI 207: Tax 2019	OECD Action 13 BEPS Country by Country Reporting
Applicability	Voluntary public disclosure for an organization of any size, type, sector or geographic location that identifies it material to report on its impacts related to taxes, in accordance with the GRI standards	Mandatory for multinationals with consolidated group revenues of more than €750 million
Data aggregation	Data to be reported by tax jurisdiction	Data to be reported by tax jurisdiction
Basis of calculation	Dependent on relevant guidance	Aggregate tax jurisdiction-wide information
Period covered in the reporting	Covers the most recent audited consolidated financial statements or, when this information is not available, the one preceding it	Covers a fiscal year and filed within 12 months of end of fiscal year
Timing of reporting	An organization is expected to commit to regularly providing a consolidated disclosure of its economic, environmental, and social impacts	Report to be filed no later than 12 months after the last day of the Reporting Fiscal Year
Reporting requirements		
Names of resident entities	✔	✔ requires the name of the tax jurisdiction where an entity is incorporated if it is different from the jurisdiction of residence
Names of entities deemed not to be resident in any tax jurisdiction	✔	✔
Business activities	✔	✔
Number of employees	✔ flexibility of calculation method	✔ on a full-time equivalent basis
Revenues aggregated total	✖	✔
Revenues from third parties	✔	✔
Revenues from related parties	✔ revenue from intra-group transactions with other tax jurisdictions ✖ revenue from intra-group transactions within the same tax jurisdiction not required	✔
Profit / loss	✔	✔ summed
Tangible assets	✔	✔ summed
Corporate income paid (on cash basis)	✔ flexibility to report withholding tax separately	✔
Corporate income accrued	✔	✔
Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax	✔	✖
Stated capital	✖	✔
Accumulated earnings	✖	✔

Figure 15: OECD BEPS Actions 13 CbCR versus GRI 207-4 CbCR [113]

113 https://www.globalreporting.org/standards/media/2537/comparison-gri-207-tax-2019-oecd-beps.pdf

2.4 OTHER GLOBAL TAX TRANSPARENCY INITIATIVES

The GRI 207 standard and the Action 13 of the OECD's Base Erosion and Profit Shifting Action Plan are not the only tax transparency initiatives in the global context. There are other supranational and national bodies which recognized the increasing importance of this matter in the ESG context. As we can see from the timeline below, the first initiatives are dated back to 2003, 2010, 2013 and 2015 and were mainly targeted at the extractive and financial sectors. However, in the last years other developments have been made and are applicable to all types of organizations and industries.

Figure 16: Existing and proposed transparency initiatives [114]

Some examples of global tax transparency initiatives are:

- <u>Capital Requirements Directive (CRD) IV</u>: the CRD IV Directive is not directly aimed at increasing tax transparency since the overriding objective is the strengthen of the EU banking sector as a consequence of past economic and financial crisis. Despite this, the directive requires also greater information transparency by banks which starting from 2014 (year in which the CRD IV became effective after the approval in 2013) have to disclose data on profit, taxes and subsidies in the jurisdictions where they operate [115].

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[114] PwC (2021), "The Total Tax Contribution framework: Tac takes a step towards sustainability", p. 11

[115] CFA Institute (2013), "Capital Requirements Directive (CRD) IV Issue Brief", p. 3

- <u>OECD Common Reporting Standard (CRS)</u>: it is an initiative approved in 2014 by the OECD in cooperation with G20 countries and the European Union, which asks jurisdictions to gather information from their financial institutions and exchange them every year among countries [116]. It is a tax transparency scheme which sets the guidelines to be followed to exchange financial account information in tax matters across jurisdictions and countries, with the aim of fostering transparency on financial accounts.

  According to the CRS Implementation Handbook, "the Standard intends to equip tax authorities with an effective tool to tackle offshore tax evasion by providing a greater level of information on their residents' wealth held abroad" [117]. In 2018, over 100 countries committed to this initiative of automatic exchange of data since the standard is addressed to a broad scope of financial information (in order to avoid the reporting of some particular taxpayers' accounts uncovered). Briefly, the standard asks financial institutions to report to local governments the details of "financial assets they hold on behalf of non-resident taxpayers and the income derived therefrom. The tax administrations then exchange that information with the jurisdiction(s) of residence of the taxpayer" [118].

- <u>EU Council Directive 2018/822 amending the Directive 2011/16/EU ("DAC6")</u>: the Council Directive 2018/822 made mandatory the disclosure by EU-based intermediaries or relevant taxpayers to local tax authorities of information on cross-border tax arrangements involving at least one member country [119]. It entered into force in 2018 and starting from 2020 member states shall apply it. It has at its core the aim of achieving tax transparency and fairness and similarly to other initiatives, also this directive provides national tax authorities to

[116] https://www.oecd.org/tax/automatic-exchange/common-reporting-standard/
[117] OECD (2018), "Standard for Automatic Exchange of Financial Information in Tax Matters - Implementation Handbook - Second Edition", OECD, Paris, p. 7 available at https://www.oecd.org/tax/exchange-of-tax-information/implementation-handbook-standard-for-automatic-exchange-of-financial-information-in-tax-matters.pdf
[118] Ibid., pp. 7-8
[119] https://www.pwc.com/gx/en/services/tax/tax-policy-administration/dac6-eu-directive-on-cross-border-tax-arrangements.html

automatically exchange the disclosures – not only between member states involved in the arrangements, but also to third countries where the information could be relevant.

- European Union Public Country-by-Country Reporting Directive: as the GRI 207 and the Action 13 by OECD, also this directive of the European Union adopts the CbCR tool which aims at identifying the scale of operations of a company in a particular jurisdiction and the tax contributions that it makes there. It was proposed in 2016 by the European Commission and then adopted in November 2021. It requires multinational businesses with activities in the European Union (through production plants, subsidiaries, branches or registered offices) to report country-by-country tax-related information of the whole group and asks corporations to provide annual information separately for each EU member state and for each jurisdiction deemed non-cooperative by the EU or that has been on the EU's "grey" list for a minimum of two years; and aggregately for all the other countries non pertaining to the European Union [120]. The undertakings under the scope of the directive are the ones with revenues equal or higher than 750 millions Euros in the last two financial years. The seven areas of disclosure are: description of the activities undertaken, number of employees, net turnover (comprising also the related party turnover), profit or loss before tax, tax accrued and paid (with justifications in case of differences among the two voices), and amount of accumulated earnings [121].
  Finally, this new development has to be applied starting from June 2024 and has to be implemented in the national laws of member states by June 2023.

- European Union – Social Taxonomy: the Platform on Sustainable Finance (PFS) published in 2022 the "Final Report on Social Taxonomy" through which a group of experts advise the European Commission on sustainable financial policies. The aim of this draft is to define which economic activities can contribute to the achievement of the social goals, which actions have a positive impact in the social

[120] https://home.kpmg/xx/en/home/services/tax/regional-tax-centers/eu-tax-centre/country-by-country-reporting.html
[121] Ibid.

context, and what can be considered a social investment (as already done for the environmental ones). Among the objectives of the Social Taxonomy included in the Governance topics related to sustainability, there is also the chapter called "Transparent and non-aggressive tax planning" since, as said in the previous paragraphs, tax revenue is a vital mean to achieve the SDGs, reduce inequalities, redistribute wealth, and maintain the macroeconomic stability of countries.

- United States – Foreign Account Tax Compliance Act (FACTA): the FACTA was approved in 2010 under the Hiring Incentives to Restore Employment Act and requires foreign financial institutions to disclose annually the financial assets and accounts held by U.S. citizens to the Internal Revenue Service (IRS). Similar to other initiatives seen previously, also the FACTA has the ambition of promoting transparency and avoiding tax evasion, with a special focus on the financial sector. Even though it is not illegal to have foreign accounts in other jurisdictions, the requirement has been approved since the U.S. government taxes all income and assets of American citizens on a global scale [122]. The legal actors subject to the FACTA requirements are those who possess a total financial wealth (made of bank accounts, bonds, stocks, or other financial instruments) equal or higher than $50,000.

- United States – Section 13(q) of the Exchange Act: in 2020 the Securities and Exchange Commission adopted the rules implementing the Section 13(q) of the Exchange Act (introduced by the Dodd-Frank Wall Street Reform and Consumer Protection), requiring organizations operating in the extractive industry to disclose payments made to the U.S. federal government or non-U.S. governments for the extraction and commercialization of oil, natural gas, or minerals [123]. Among the payments made, also the ones in form of taxes are to be disclosed. However, in the rules it is written that only "payments for taxes levied on corporate profits, corporate income, and production" are required but "will not be required to

122 https://www.investopedia.com/terms/f/foreign-account-tax-compliance-act-fatca.asp#citation-1
123 https://www.sec.gov/news/press-release/2020-318

disclose payments for taxes levied on consumption, such as value added taxes, personal income taxes, or sales taxes" [124].

- United Kingdom – Requirement to publish a Tax Strategy: starting from 16 September 2016, the UK government requires its companies and group of companies which carry their activities through some branches or subsidiaries in the United Kingdom (and with a turnover of more than £200 million and balance sheet value of more than £2 billion), to publish online and free of charge their tax strategy [125]. The initiative asks companies to have the strategy approved by the Board of Directors and has to contain the following information: details of the paragraph of the legislation it complies with, the financial year the strategy relates to, how the business manages UK tax risks, the business's attitude to tax planning, the level of risk the business is prepared to accept for UK taxation, how the business works with HMRC (HM Revenue & Customs – the tax-collection non-ministerial department of the UK Government), and any other information recognized important for tax purposes [126].
  However, differently from the GRI 207 standard, this initiative does not ask corporations to disclose the amount of taxes paid, since it considers this kind of information as sensitive.

- United Kingdom – Fair Tax Mark (FTM): starting from 2016, the Fair Tax Foundation awarded businesses for their responsible tax strategies and for their transparency. It is a certification which initially was addressed to UK organizations, but that since 2021 was expanded to all global multinational enterprises and is defined as "the gold standard of responsible tax conduct" [127]. According to the Foundation's website, it is a scheme which recognizes the fairness of corporations which pay their fair share of corporate income tax at the right time

[124] Securities And Exchange Commission (2021), "Disclosure of Payments by Resource Extraction Issuers", p. 117 available at https://www.sec.gov/rules/final/2020/34-90679.pdf
[125] https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy#:~:text=Print%20this%20page-,Who%20must%20publish%20a%20strategy,sheet%20over%20%C2%A32%20billion
[126] Ibid.
[127] https://fairtaxmark.net/

and in the right place, and awards also the transparency of these companies in the disclosure of tax practices. The FTM principles that a business should follow in order to obtain the certification are: "pay the right amount of tax (but no more) in the right place at the right time, according to both the letter and the spirit of the law; readily provide sufficient public information to enable its stakeholders to form a rounded and informed view of its beneficial ownership, tax conduct and financial presence (across the world if they are a multinational); say what they pay with pride" [128].

- Poland – Information on the executed tax strategy: in 2021 Poland introduced the obligation to businesses with revenue higher than 50 million Euros and to multinational organizations (no revenue threshold) which operate in the Polish territory, to disclose tax strategies executed. Moreover, the requirement asks companies to translate the report also in polish and to publish it in their websites. The tax strategy executed report filed by organizations shall include information on tax obligations, on tax processes and procedures to fulfil the liability, on voluntary forms of cooperation with the National Revenue Administration, on transactions with related entities, the number of tax schemes to which the group is subject, on restructurings made or planned, on tax settlements made in countries that accept abusive tax practices like tax havens [129]. According to the size, type, and nature (if listed or not) of the company, additional disclosure requirements may be enacted (by always protecting sensitive information).

- The Netherlands – Horizontal Tax Monitoring: in 2015 (then revised in 2020) the Netherlands Tax and Customs Administration developed a program where Dutch taxpayers can voluntarily cooperate with the tax administration and provide them their tax planning and allow them the access to their systems, in order to enhance internal monitoring. It is called "horizontal" since the control is horizontal due to the voluntary nature of the relationship between the businesses and the tax authority. It is based on trust and transparency and, differently from the traditional

[128] https://fairtaxmark.net/why-get-the-mark/criteria-and-standards/

[129] https://home.kpmg/pl/en/home/insights/2021/01/citpoint-new-reporting-obligation-information-on-the-executed-tax-strategy.html

"vertical" controls, the tax authority can act in a proactive way (tax controls in real-time which allow immediate corrective actions), rather than a reactive one (tax controls over past periods). If this is the benefit for the Dutch tax authority, for companies it consists on the fact that thanks to this framework there is a lower risk of legal uncertainty on their tax situation, since every doubt or problem can be solved by the proactive relationship with the government [130]. Tax transparency is in this way an accountability tool which encourages open debates for a better understanding of the tax environment and framework; and for developing good practices for an effective and efficient tax governance.

- China – Administrative Measures on Special Tax Investigation Adjustments and Mutual Agreement Procedures: in 2017 the State Administration of Taxation (SAT) released an amendment to the existing rules on tax investigations, mutual agreement procedures and tax adjustments to align "transferring pricing outcomes with value creation" [131], improving the monitoring powers, and improving compliance among taxpayers. The measure adopted by the Chinese governments involves: provisions for encouraging self-review and voluntary adjustment by taxpayers (not only after they received notifications from tax authorities), provisions for expanding the number of taxpayers with high-risk features (e.g. those with persistent losses or low profits, and those which engage in inter-company transactions with branches in low tax-rates jurisdictions) which require special investigation procedures, guidelines for the procedures to be followed during investigations and the information that taxpayers have to disclose, procedures for mutual agreements and the obligations and rights of tax authorities [132].

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130 https://taxsummaries.pwc.com/netherlands/corporate/tax-administration#:~:text=Under%20horizontal%20monitoring%2C%20the%20company's,wage%20tax%2C%20and%20social%20security.

131 OECD (2015), "Aligning Transfer Pricing Outcomes with Value Creation, Actions 8-10 - 2015 Final Reports", OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris. Available at http://dx.doi.org/10.1787/9789264241244-en

132 https://www.dlapiper.com/en/us/insights/publications/2017/04/china-updates-special-tax/

- Australia – Tax Transparency Code (TTC): the Australian Taxation Office (ATO) makes available a centralized database in which are collected all the voluntary TTC reports which businesses voluntary publish. The TTC contains a set of principles and standards which have the aim of guiding organizations when reporting on tax matters. It was developed by the Board of Taxation and the adoption of these principles is voluntary. The businesses under the scope of this initiatives are medium (between \$100 millions and \$500 millions of turnover) and large corporations (turnover higher than \$500 millions), partnerships, trusts, and super funds [133]. According to the size of the company, the minimum standards to be followed change and are the ones reported in the following figure:

TTC disclosure	Who	Minimum standard of information
Part A	Large and medium businesses	› A reconciliation of accounting profit to tax expense and to income tax paid or income tax payable › Identification of material temporary and non-temporary differences › Accounting effective company tax rates for Australian and global operations (pursuant to AASB guidance)
Part B	Large businesses	› Approach to tax strategy and governance › Tax contribution summary for corporate taxes paid › Information about international related-party dealings

Figure 17: Minimum standard of information to disclose [134]

- Denmark – Tax Code of Conduct: differently from other initiatives mentioned in this paragraph which saw governments or supranational organizations as promoters of tax transparency schemes, in Denmark the Tax Code of Conduct is a set of mutually agreed principles developed by four institutional investors: ATP, PFA, PensionDenmark and Industriens Pension. This code specifies how managers

[133] https://www.ato.gov.au/Business/Large-business/Corporate-Tax-Transparency/Voluntary-Tax-Transparency-Code/
[134] Ibid.

should approach the taxation dimension with the ambition of guaranteeing more efficient and sustainable investments [135]. It highlights the possible reputational risks related to tax matters that investors could face if corporations do not behave in an ethical manner which foster a sustainable development. Among the principles included in the code of conduct, investors ask companies to adopt tax strategies which do not involve the prevention of double taxation, which do not involve aggressive tax planning and which support tax transparency as required by the OECD and EU initiatives. Moreover, investors expect businesses to engage with them in a constant and transparent dialogue.

- Canada – Extractive Sector Transparency Measures Act (ESTMA): the ESTMA is an act which was developed in order to prevent corruption in the extractive sector. It requires entities involved in the commercial development of oil, gas, and minerals to publicly disclose annually a report with certain typologies of payments (including corporate income taxes) made to the Canadian government and to other foreign governments. The businesses under the scope of the act are the ones listed in the Canadian stock exchange or those unlisted but operating in Canada and meeting at least two of the following conditions in one of the last two financial years: having at least C$20 millions in assets, generating at least C$40 millions in revenue, and employing an average of 250 employees [136].

- Extractive Industries Transparency Initiative (EITI): the EITI standard is a global initiative in which the 55 countries that adhere commit themselves to disclose information relating to the value chain of companies of the extractive sector. These information to be disclosed address the main governance issues of extractive businesses and range from data on how extraction rights are awarded, on contracts and licenses, to the public contributions they make to governments through tax payments [137]. Furthermore, every country's report is subject to

[135] https://www.pensiondanmark.com/globalassets/dokumenter/investering/new-tax-code-of-conduct.pdf
[136] https://www.nrcan.gc.ca/our-natural-resources/minerals-mining/extractive-sector-transparency-measures-act/information-estma/18184
[137] https://en.wikipedia.org/wiki/Extractive_Industries_Transparency_Initiative

assurance controls at least every three years in order to evaluate quality, consistency and to promote emerging better practices.

Finally, all these initiatives can be grouped into different categories based on their nature. Some of them can be considered as public ones since the tax disclosure transparency is addressed to the broad public of the company: its stakeholders; others can be categorized as private since the tax information disclosed are direct only to tax authorities or governments (they involve exchange of information between companies and administrations, not to other third-parties that may have an interest in those entities). Then, these tax transparency initiatives can also be grouped in voluntary and non-voluntary ones, highlighting in this way the public institutions progresses and efforts in pursuing higher tax transparency in the business environment.

	PUBLIC INITIATIVES	PRIVATE INITIATIVES
VOLUNTARY INITIATIVES	o GRI 207: Tax o European Union – Social Taxonomy o United Kingdom – Fair Tax Mark (FTM) o Australia – Tax Transparency Code (TTC) o Denmark – Tax Code of Conduct o Extractive Industries Transparency Initiative (EITI)	o The Netherlands – Horizontal Tax Monitoring
NON-VOLUNTARY INITIATIVES	o European Union Public Country-by-Country Reporting Directive o United States – Section 13(q) of the Exchange Act o United Kingdom – Requirement to publish a Tax Strategy o Poland – Information on the executed tax strategy o Canada – Extractive Sector Transparency Measures Act (ESTMA)	o Capital Requirements Directive (CRD) IV o OECD Common Reporting Standard (CRS) (if the jurisdiction has passed domestic legislation to impose reporting obligations) o EU Council Directive 2018/822 amending the Directive 2011/16/EU ("DAC6") o United States – Foreign Account Tax Compliance Act (FACTA) o China – Administrative Measures on Special Tax Investigation Adjustments and Mutual Agreement Procedures

Figure 18: Classification of tax transparency initiatives

To conclude this chapter, global economic and financial crisis and the Covid-19 pandemic have arisen new expectations on what corporate responsibility is. Stakeholders are asking more transparency to large multinational businesses and an increased concern is directed to tax affairs. Companies are asked to disclose their tax contributions on a country-by-country basis in order to assess their responsible behavior and their commitment to the achievement of the United Nations 17 Sustainable Development Goals. Through an ethical tax behavior, organizations support actions against climate change and social issues. For this reason, there are various categories of taxes like people taxes, product taxes, property taxes and planet taxes [138]. Along to the increased pressures from stakeholders, also from the normative perspective have been made some steps forward in the tax-footprint disclosure area of interest, with the GRI 207 standard published in 2019 by the Global Reporting Initiative and the OECD BEPS project as main initiatives. However, tax transparency frameworks and schemes remain less developed and more fragmentated with respect to other disclosure requirements.

Even if standard setting bodies like the Sustainability Accounting Standards Board (SASB) do not provide yet tax reporting guidelines, due to the recent pandemic and the changing profiles of tax regimes, about the 72% of CEOs interviewed by PwC showed a real concern about tax policy uncertainty and unpredictability, leading in this way to consider even more tax strategies and tax risks assessment during the decision-making process of companies [139]. For all the motivations reported in this chapter and despite all the added costs of collecting detailed tax information and the possible risks of leakage of sensitive information and misuse of them, tax transparency and responsible tax payments will increase in relevance among the public opinion during the future years.

[138] PwC (2021), "The Total Tax Contribution framework: Tac takes a step towards sustainability", p. 2

[139] Ibid., p. 8

CHAPTER 3

SUSTAINABILITY DISCLOSURE AND CORPORATE REPUTATION

3.1 CORPORATE REPUTATION

Reputation is a concept often associated to people and perceptions; however, it can also be applied to group of individuals like organizations and to the relationships of these groups with their stakeholders. Reputation is comparative in nature ("the relative position of an organization among its counterparts: the relative standing of a company has to be determined through comparison with other companies" [140]), and is a fundamental need, mainly a personal one, which is the result of "social constructs" arising from beliefs, valuations and perceptions formulated by human beings [141]. Reputation exists because we are part of a society and since people frequently change opinions and perceptions, also reputation may change over time, based on the social context in which the subject under attention is put. Furthermore, also the subject under attention can undertake actions which have the ambition of reinforcing the social consensus in order to have a favorable and positive reputation. Reputation can determine the success or failure of an individual or an economic actor, it changes continuously, and for this reason it is extremely difficult to control its development and the factors that determine it. For companies, reputation can be seen as a tool for legitimation and as consequence of a constant dialogue made of positive interactions with stakeholders. Reputation has to be constructed over time (in order to be consolidated) and depends on the social context (since an individual or group of individuals can have a positive reputation in one context but not in another). In addition to these characteristics, reputation for organizations can be influenced also by the dimension and the life-cycle stage in which a firm finds itself. Usually, new start-ups have to make various actions in order to create their reputation

[140] G. Michelon (2011), "Sustainability Disclosure and Reputation: A Comparative Study", Corporate Reputation Review, Vol. 14, 2, 79–96, p. 81

[141] I. Corradini, E. Nardelli (2015), "La reputazione aziendale. Aspetti sociali, di misurazione e di gestione", FrancoAngeli, Milano (ed. digitale), p. 11

since it takes time. On the other hand, multinational corporations which are in a stable phase, usually have already consolidated their position in the competitive environment and have already constructed their reputation, so they act just to preserve or enhance it.

The corporate reputation notion arose in the 70s and 80s as a result of a need of understanding the stakeholders' decisions concerning organizations [142]. According to Fombrum, reputation "is a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and externally with its stakeholders, in both its competitive and institutional environments" [143]. Further, it is seen also as "the outcome of a competitive process in which firms signal their essential characteristics to constituents to maximize social status" [144] and as "the estimation of the consistency over time of an attribute of an entity. This estimation is based on the entity's willingness and ability to perform an activity repeatedly in a similar fashion" [145].

Corporate reputation is strictly connected to corporate image and corporate identity, since these concepts take form from different perceptions deriving from various information sources which create social expectations and opinions. Even though corporate image and corporate identity are the basic components of the corporate reputation, corporate identity is usually put in relation to the perceptions regarding the nature of the company by internal stakeholders like employees and managers; meanwhile the corporate image is seen as the perceptions that external actors and observers have of the company. Corporate image is considered as the aggregation of all the evaluations and beliefs of external stakeholders with reference to the company in its complex, based on

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[142] I. Corradini, E. Nardelli (2015), "La reputazione aziendale. Aspetti sociali, di misurazione e di gestione", FrancoAngeli, Milano (ed. digitale), p.25

[143] C. Fombrun, V. Rindova (1996), "Who's Tops and Who Decides? The Social Construction of Corporate Reputations", New York University, Stern School of Business, Working Paper cited by C. J. Fombrun, C. Van Riel (1997), "The Reputational Landscape", Corporate Reputation Review, 1(1), p. 10

[144] A. M. Spence (1974), "Market Signaling: Informational Transfer in Hiring and Related Screening Procedures", Harvard University Press, Cambridge, MA cited by M. Omar, R. L. Williams, Jr. (2006), "Managing and maintaining corporate reputation and brand identity: Haier Group logo", Journal of Brand Management, 13(4-5), p. 269

[145] P. Herbig, J. Milewicz (1995), "To be or not to be. Credible that is: A model of reputation and credibility among competing firms", Marketing Intelligence & Planning, Vol. 13, No. 6, pp. 20–38 cited by M. Omar, R. L. Williams, Jr. (2006), "Managing and maintaining corporate reputation and brand identity: Haier Group logo", p. 269

tangible characteristics (quality, price, reliability) and subjective, intangible components (emotions, feelings). So, a specific image takes shape within each group of stakeholders of the company. There is not a single corporate image, but there are as many as the groups of stakeholders are.

In this regard, Bernstein [146] proposed nine groups of stakeholders with which companies constantly dialogue: internal public (workforce and shareholders), local community (citizens, authorities, institutions), groups of influence (consumers' protection groups, academics, scholars), economic actors (suppliers, distributors), authorities (offices in charge of various functions like tax collection), mass media (newspapers, magazines, radio, television, social media), financial sector (banks or other institutional investors), end-customers (consumers or users of the product), and the large public made of local communities in which companies operate.

Other authors like Markwick and Fill, define corporate identity as "the organization's presentation of itself to its various stakeholders and the means by which it distinguishes itself from all other organizations" [147]. Further, corporate identity from the organizational design point of view, includes all the elements at the core of a company, such as culture, mission, vision, objectives, strategies, principles, organizational structure, offer provided, know-how, communication system, and basically all the features which differentiate it from the competitors [148].

Reputation is also based on differentiation: if a company possess a characteristic which differentiates itself from competitors, it has something that others do not have, and which attracts attention in the market. Remember that as said at the start of this chapter, reputation is comparative in nature. From the psychological point of view, reputation is used also to create a familiar impression of a company to stakeholders, due to the fact that familiarity makes people more likely to trust a business, as human beings we tend to be unconsciously more attracted to what is familiar and what has been already seen and processed.

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[146] D. Bernstein (1988), "Company image: la comunicazione d'impresa tra immagine e realtà", Guerini e Associati, Milano, p. 157

[147] N. Markwick, C. Fill (1997), "Towards a framework for managing corporate identity", European Journal of Marketing, 31, 5-6, pp. 396 – 409

[148] R. Abratt (1989), "A New Approach to the Corporate Image Management Process", Journal of Marketing Management, Vol. 5, No. 1, p. 68

For organizations, reputation is linked also to the success of the governance model put in place since it is the result of continuous interactions between the business and its stakeholders which have the power of influencing corporate choices. It is an important factor to consider during strategic planning and decision-making phases to create a strong identity recognizable among competitors.
However, corporate reputation is not only about perceptions and opinions; it is also an intangible asset for companies with an indefinite life and which is able to generate future benefits and cash flows. A good reputation may influence the positioning and competitiveness of a company, it may justify the increase of prices, it may attract capital investments, it may expand the number of customers and retain the existing ones, and it may attract and retain a talented and skilled workforce.
The ability of reputation is that of influencing the choices and decisions of those who interact with the company, mainly in situations where obtaining corporate information appears difficult or expensive, or when those information need a form of credibility to sustain them. Due to information asymmetries, stakeholders are less informed than managers regarding the real situation of the company, and most of times they make reliance on corporate reputation. Thus, reputation becomes a positive signal and a profitability driver for the organization which invests in it.
Trust is an essential element in the reputation concept since consistent behaviors and satisfied expectations induce stakeholders to think that companies will continue in the future in a coherent way as the established and historical one. Reputation becomes in this sense a signal to predict future actions and behaviors of a company, promoting in this way expectations which are on the same track to the past ones.
As said before, reputation has to be developed with time and it is the aggregation of signals and behaviors that organizations convey implicitly and explicitly to stakeholders through communication channels. In the formation of corporate reputation, communication has an important role since it discloses input information for decision-making processes and also output information of results achieved, as well as the narration of the corporate values. The end result is a sort of socialization process of the organization for the exchange of information and for the creation and development of positive perceptions and consensus.
Finally, Fombrun & Van Riel in 1997 developed six definitions of reputation, linking the concept to the area of usage:

DISCIPLINE	DEFINITION OF REPUTATION
Accounting	Reputation is an intangible asset that is difficult to evaluate and that creates value for the company.
Economics	Reputation has seen as traits or signals that describe the company's behavior in specific situations. Reputation is the perception of external shareholders.
Marketing	Reputation describes the business association that individuals or groups establish with the corporate name.
Organizational behavior	Reputation as cognitive representation of companies, it generates stakeholders' connection on corporate activities.
Sociology	Reputation as rankings: social constructions generating from the relationships firms establish with stakeholders in their shared institutional environments.
Strategy	Reputation as intangible assets difficult to imitate, acquire and substitute to rivals. It can be a source of competitive advantage.

Table 2: Definitions of reputation [149]

3.2 RESOURCE BASED THEORY, STAKEHOLDER ENGAGEMENT AND REPUTATION RISK MANAGEMENT

Recently, the importance of intangible assets and the importance of corporate reputation have been recognized as vital for companies in order to create barriers to entry into markets. Reputation is considered as an intangible asset which is capable of generating future economic benefits in terms of customer loyalty and retention, and as a key success factor to achieve competitive advantages. Intangible resources are becoming even more important in the strategic thinking of organizations since differently from the tangible ones, they are a unique set of skills and capabilities difficult to imitate by competitors. Corporate reputation is considered a firm-specific asset which is the result of the unique

[149] C. J. Fombrun, C. Van Riel (1997), "The Reputational Landscape"

and unrepeatable history of the organization, made up of coherent choices and commitments on certain strategic areas (like transparency and sustainability), accompanied by investments in communication and marketing practices to enhance the actions and conducts implemented. Reputation therefore acts as a mechanism of isolation from competitors, preventing imitations and thus strengthening the achievement of sustainable competitive advantages over time.

As stated by Fombrum and Van Riel, corporate reputation can be considered as an intangible asset since it is "rare, difficult to imitate or replicate, complex and multidimensional, which needs a lot of time to accumulate, specific, difficult to manipulate by the firm, with no limits in its use and does not depreciate with use" [150].

Thus, reputation is seen both as an intangible and strategic asset which leads to the generation of long-term competitive advantages compared to the ones coming from traditional marketing strategies. However, even if it represents a source of value creation, it is also a source of value destruction since if not all the expectations of the various stakeholder groups are met, corporate confidence and credibility will deteriorate.

According to the Resource Based view, reputational value is a direct function of the resources owned or, after a subsequent development, of the relationships that allow the company to combine resources, skills, and knowledge. The growing complexity of global competitive dynamics has progressively brought organizations' management to converge on the recognition of intangible resources as sources of primary growth and value creation.

The reputation of a group of individuals, in this case an enterprise, is the result of the quality of the relationships with other individuals of the society – in this case the stakeholders like customers, shareholders, governments, suppliers. It is basically an indicator of success of the governance of the entity and how it manages stakeholders' expectations. To achieve long-term goals, each organization needs to be supported by external and internal actors, who not only have an interest in the business, but also own indispensable resources and assets. According to many scholars, the process of stakeholder engagement goes from a "reactive" position in response to pressures and regulatory obligations, to a "proactive" one, which is based on behaviors that aim at anticipating and satisfying stakeholders' expectations, by involving them in decision-

[150] Ibid., p. 128

making processes [151]. Better integration of stakeholders into corporate life leads to significant benefits like [152]:

- More equitable and sustainable social development by giving the opportunity to be involved and heard to individuals impacted by corporate activities in decision-making processes;
- Usage of resources like external knowledge, capabilities, and capital to solve issues and achieve objectives;
- Allow better risk management;
- Allow the company to learn from stakeholders and understanding better the surrounding environment (also for the identification of new opportunities);
- Inform, educate, and influence stakeholders.

So, the company's commitment in recognizing its stakeholders as active actors to involve and dialogue with is the prerequisite for the development of corporate reputation, which according to the Resource Based View is a fundamental asset in today's competitive environment. Stakeholder engagement is the essential condition for obtaining from stakeholders not only tangible assets, but also intangible ones – like capabilities and knowledge – that companies need for their competitiveness in the long-run.

Corporate reputation, as an intangible asset, if positive can lead to the generation of future financial benefits like the attraction of more customers (creation and consolidation of loyal customers increases the company's competitiveness), better contract conditions with suppliers, attraction of capital at lower costs, reduced marketing costs, increase of market share, adoption of premium price strategies, attraction of a broader talent pool of human resources, less attention from regulators, attraction of investments, and positive media coverage [153].

Reputation can also be a defensive asset in cases of crisis. Corporate scandals or crisis provide negative perceptions to stakeholders which deteriorate the image of a business and in many cases, they can destroy confidence and credibility in the company (which

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151 P. Sharma, S. Sharma (2011), "Drivers of proactive environmental strategy in family firms", Business Ethics Quarterly

152 T. Krick, M. Forstater, P. Monaghan, M. Sillanpää (2005), "The stakeholder engagement manual, vol. 2: The practitioner's handbook on stakeholder engagement", United Nations Environment Programme

153 https://www.alva-group.com/blog/what-are-the-advantages-of-a-good-corporate-reputation/

once lost, are very difficult to recover) since a lot of media negative attention and criticism are received. However, good past reputation helps businesses to protect the image of the organization and to overcome the damages that derive from crisis or situations of uncertainty. Further, crisis can also be opportunities to innovate and increase even more than before corporate reputation, like for example Starbucks which after labor disputes and intense competition from McDonald's espresso launch, it managed the critical period and took the crisis as an opportunity to change its business model [154].

So, crisis can both be opportunities for reputation resilience or disasters which lead to reputation destruction or loss of credibility (e.g. when the adoption of sustainability practices is seen just as greenwashing). Reputation takes times to be constructed and developed, but it needs few seconds to be destroyed. Among the negative consequences of a reputational crisis there are [155]:

- Economic and financial losses;
- Compromised relationship with stakeholders and compromised legitimation;
- Decrease in value;
- Legislative consequences like fines and sanctions;
- Increase in costs like insurance premiums and loss of contractual agreements benefits with suppliers;
- Excessive media attention and rapid spread of negative information through social media.

All these consequences lead to an increase in costs and a loss in value generated, and an example can be the 2015 Volkswagen scandal concerning a manipulation of data regarding vehicle emissions, which was an activity implemented to meet management's sales expectations and which led to reputational loss costs of approximately $ 78 billion, mainly including lawsuits and product modifications [156].

Considering this, reputational risk detection, analysis and management is a priority in the risk management activity. Once formed, reputation represents the status and prestige of

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[154] N. Piyasinchai (2021), "Corporate Sustainability Reputation Matters Most During Crises" available at https://nbs.net/articles/corporate-sustainability-reputation-matters-most-during-crises/

[155] I. Corradini, E. Nardelli (2015), "La reputazione aziendale - aspetti sociali, di misurazione e di gestione", p. 100

[156] https://www.carsales.com.au/editorial/details/dieselgate-could-bleed-volkswagen-dry-54291/?utm_source=motoring.com.au&utm_medium=referral&utm_campaign=decommission

a company and reflects an intangible property, especially for big corporations which "invest heavily in print management and marketing" [157]. Among the efforts of executives there is the adoption of codes of ethics through which they make internal stakeholders like employees adhere. These codes are instruments which provide guidelines for desired behaviors which protect the company from scandals and from unethical or illegal actions by workers. So, ethical codes have as goal the protection and creation of a positive reputation, the management of risks due to the breach of these codes and due to improper actions or behaviors, and company self-defense. Basically, codes of ethics are social and moral guidelines which have the ambition of increasing reputation in the eyes of stakeholders if the organizational actors behave morally.

However, it appears that companies manage reputational risk by just focusing on overcoming risks already existing and by enacting preventive strategies to minimize losses in cases of issues [158]. Actually, they should also implement scenario planning forecasts, analyzing any possible reputational crisis that may arise; apply and integrate sustainability practices into business operations, since everything a company does has an external impact and it is crucial nowadays that a company takes care of the external environment by acting ethically in order to avoid causing damage and negative externalities to someone; establish good and lasting relationships with stakeholders to always understand their expectations and needs; invest in effective storytelling to describe corporate operations and values through stories that everyone can understand; be transparent and credible by also avoiding greenwashing, which is a practice that consists in over-emphasizing positive aspects to convey a corporate image which is distortive; manage interactions on social networks and medias to generate positive engagement and consensus.

In a recent study conducted by Eccless, Newquist and Schatz there have been identified three main types of reputation risk factors: the existence of a gap between an organization's reputation and its reality, the change in consumers' expectations, and the situation when a company is unable to react to changes in the environment ("an important

[157] D. B. Bromley (1993), "Reputation, Image and Impression Management", New York: John Wiley & Sons cited by H. Nobanee, M. Alhajjar, G. Abushairah, S. Al Harbi (2021), "Reputational Risk and Sustainability: A Bibliometric Analysis of Relevant Literature", Risks 9: 134, p. 3

[158] H. Nobanee, M. Alhajjar, G. Abushairah, S. Al Harbi (2021), "Reputational Risk and Sustainability: A Bibliometric Analysis of Relevant Literature", p. 4

source of reputational risk is poor coordination of the decisions made by different business units and functions" [159]).

Research from Gladys [160] have also identified that companies can adopt two different models when managing reputational risk: the first approach is the top-down one which considers the analysis of factors to which organizations have to comply with for legitimation purposes like contracts, norms, national laws and other regulations; the second one is the bottom-up approach through which the management analyses the possible risks from the stakeholders' perspective by considering in this way social impacts.

Interesting are also the reputational strategies that can be implemented by a company according to Argenti, Lytton-Hitchins and Verity [161]:

1) Reckless negligence: this strategy explains the behavior of companies which continue to do their business as usual by doing little or nothing to improve. According to this theory, new opportunities or changes are taken as long as prices remain low, and customers are satisfied. So, if the company has low prices, acceptable quality of products, and shareholders expectations are met, it will do nothing to change its situation to enhance reputation. However, "these companies are one misfortune away from irreversible damage to their reputation" [162].
2) Deceptive virtue: this strategy involves the usage of marketing practices and public relations to emphasize changes in brand, philanthropy initiatives, sustainability efforts and the implementation of high-quality business practices to enhance reputation. However, companies have to keep in mind that this kind of "celebratory" communication focused on corporate image has to match the real values and principles of the organization, otherwise issues may arise [163].
3) Benign competence: according to this strategy, corporate reputation management is not the central focus of the organization. However, management recognize it as

[159] R. G. Eccless, S. C. Newquist, R. Schatz (2007), "Reputation and its risks", Harvard Business Review, Vol. 85, No. 2, pp. 104-114

[160] J. Gladys (2007), "CSR, A risky business - risk management and CSR" http://www.fundacionseres.org/lists/informes/attachments/1109/csr-a-risky-business.pdf

[161] P. Argenti, J. Lytton-Hitchins, R. Verity (2010) "The good, the bad, and the trustworthy: Even successful public relations is no longer enough to protect a company's reputation", Strategy+Business, Issue 61

[162] Ibid., pp. 1-2

[163] Ibid., p. 2

an important risk, and for this reason investments are made in the development of systems and capabilities able to overcome and face possible reputational risks. Among the investments that companies make to mitigate reputational risk there are: increase of product quality, higher compliance with regulations, development of capabilities for health and safety, adoption of environmental practices, fulfillment of shareholders' obligations [164].

4) Trustworthiness as a competitive advantage: this last strategy is the one which is reputation-oriented. Companies adopting this strategy consider reputation as a critical and strategic asset which differentiates them from competitors, attracts workforce and consumers, and gives a positive image to stakeholders. Firms concentrate their focus also on being transparent as much as possible and respecting the promises they have made to stakeholders.

These are all basic actions that companies need to follow since "reputation risk is viewed by management and analysts as the greatest danger to the contemporary business research findings among senior risk managers, who have already been quoted, prove the greatest danger for the enterprise performing on the global market among 13 of the selected risk types. The next positions are regulatory danger, human resources risk, IT network risk, risk to the market, loan risk, nation risk, risk finance, terrorism, foreign exchange risk, natural danger hazard risk, political risk, and crime" [165]. However, in order to manage the reputational risk in a proper way to address any possible issue that may arise, there is the need to integrate the strategy of a company with all the managerial, organizational and decision-making processes.

But as we said various times, reputation cannot be entirely managed internally by executives, since according to Toms, the level of disclosure, the dimension of the company, the profitability, the presence of lobbies are variables which may influence reputation [166]. But these are not the only variables, since also the level of indebtedness (leverage), the governance, the industry, and the adoption of GRI sustainability standards can influence the corporate reputation. If we take into consideration the sustainability reputation of a company, always according to Toms, the variables which determine the Corporate

[164] Ibid.

[165] H. Nobanee, M. Alhajjar, G. Abushairah, S. Al Harbi (2021), "Reputational Risk and Sustainability: A Bibliometric Analysis of Relevant Literature", p. 4

[166] J. Toms (2002), "Firm resources, quality signals and the determinants of corporate environmental reputation: some UK evidence", British Accounting Review, pp. 257-282

Environmental Reputation (CER) are: the type of disclosure, the power and influence of shareholders, whether the organization has obtained an environmental quality kitemark, if the company provides a distinct sustainability report, if the report has been audited by external independent auditor, the systematic risk of the company, the profitability, the level of sales turnover, if the company adheres to an environmental monitored industry group [167].

To conclude, as described by Nelli, reputation can play two roles [168]:

- It is a tool for reducing uncertainties for stakeholders, through which they reduce costs linked to information asymmetries and to the search for performance information;
- It represents an intangible and strategic asset for the company, which is able to generate positive economic and competitive benefits which translate into a significant improvement in corporate financial and social performance. Reputation allows companies to create also a strong goodwill that protects it in case crisis and that increase its value in situations of acquisition or merger transactions.

3.3 CORPORATE REPUTATION MEASUREMENT

Since corporate reputation can be considered as an intangible asset, how can it be measured? First of all, reputation measurement does not only refer to consensus by a single category of stakeholders like investors, neither it can be calculated starting from a single dimension of performance of a company, like the financial one. For this reason, the reputation assessment process is complex and requires the adoption of the right variables to be evaluated, depending on the type of company and the category of stakeholders with which it dialogues more and has an impact on [169]. Generally, corporate reputation is influenced by strategies implemented by executives, by the financial performance, by the offer's quality, by the management quality, by the level of innovation of a company, by

[167] Ibid.

[168] R. P. Nelli (2012), "Corporate Reputation: valore per l'impresa, garanzie per il consumatore", Consumatori Diritti e Mercato, No. 3, p. 98

[169] Ibid., p. 100

company's values and ethical behavior, by the adoption of corporate social responsibility measures, and by many other variables that may change from firm to firm.

3.3.1 REPTRAK®

The first reputation assessment method that will be presented is the RepTrak®. It was developed in 2005 and is one of the best known and used assessment tool for quantifying the emotional linkage existing between stakeholders and companies (it is used also by the US company Reputation Institute, which was founded by Charles Fombrun and Cees Van Riel in New York in 1997). It is the first standardized and integrated tool in the world for framing and measuring corporate reputation at an international level on multiple stakeholder groups and the calculation of the reputation score is based on the Reputation Quotient model created by Fombrun and Van Riel. It does this through a combination of machine learning, artificial intelligence and natural language processing which analyze millions of sentiments and inputs coming from online surveys, mainstream media, social media, business data, and other third party information sources. At the end, it determines a score which goes from 0 to 100 (the RepTrak's Reputation Score), which provides to companies the level of confidence and trust that the public has towards them [170].
The identified factors which influence stakeholders' perceptions, and which represent the "rational" part of reputation on which companies can work to change perceptions are:

1) Products and/or services: Does the company provide safe and reliable products and services which satisfy the expectations? Are the products "transparent" and easily understandable by customers? Does the company offer insurance policies related to its products or services and does it guarantee assistance to its customers? Is the price appropriate to the quality of the product or service provided?
2) Innovation: Is the company able to innovate its products or services to meet customers' needs? Is the company able to update its offer in accordance with the technological innovations and disruptions? Is the company oriented towards

[170] The RepTrak Company (2022), "2022 Global RepTrak 100", p. 3

digitalization? Has the company innovative technologies to produce in an efficient way its products by reducing costs and waste?

3) Workplace: Is the company meritocratic and rewards talented employees? Is the workforce made up of passionate and satisfied people? Does the company promote diversity and inclusion? Does the company provide solutions and offers to balance private and professional life? Does the company promote positive values and motivates its employees?
4) Governance: Does the company operate in an ethical way? Is the company transparent with its stakeholders? Does the company act in compliance with social norms and market regulations?
5) Citizenship: Is the company committed to social development activities? Does the company provide solutions to public needs (e.g. welfare, health, climate change, health, etc.)? Does the company invest in social initiatives? Does the company engage in sustainability practices?
6) Leadership: Is the leader of the company a charismatic figure? Is the management skilled and has the necessary knowledge to guide a business? Does the management have a clear strategic vision for the future?
7) Performance: Does the company guarantee satisfying financial returns to its shareholders? Has the company growth opportunities? Does the company reach its objectives? Has the company a solid capital structure to support long-term value creation?

Further, at the heart of the RepTrak framework there are also three other dimensions which have to be evaluated when measuring corporate reputation: brand, ESG and media.

1) Brand: brand is like corporate identity, it is the unique promise a firm makes to its stakeholders and that then it implements, leading to the creation of a reputation. It represents all the values, principles, attitudes, traits that an organization conveys to the public, and how the seven drivers of reputation are managed can have an impact on the brand perception and development. According to Abratt and Kleyn, corporate brand is defined "as expressions and images of an organization's identity. For firms a brand is the mechanism that conveys the elements and builds

the expectations of what the organization will deliver for each stakeholder group" [171].

2) ESG: ESG evaluation relates to the assessment of whether a company is carrying its business activities in an ethical manner which respects environmental, social and governance norms. ESG has become a fundamental indicator in consumer behavior since according to RepTrak "a low ESG score results in a 20% willingness to buy, while a high ESG score results in a 60% willingness" [172].
3) Media: reputation and media communications have a direct relationship since they influence each other. Media coverage or media visibility is an indicator of the public opinion formed regarding a company, since mass media record, testify and interpret information about organizations, and in some way they are socially recognized as "supervisors" due to the fact that they have access to information much more effectively than common individuals and since they are endowed with a superior ability to analyze and evaluate social and economic phenomena. Further, the interactions between companies and the mass media have become increasingly frequent and relevant in the last decade, and the influence of mass media on the firm's stakeholders tends to remain high. Mass media nowadays are considered not only as information intermediaries, but also as stakeholders of an organization. RepTrak found out that "in 70% of cases, Media Reputation Scores are a leading indicator to the directionality of the perception Reputation Scores in the following 1-3 months" [173].

[171] R. Abratt, N. Kleyn (2012), "Corporate identity, corporate branding and corporate reputations: reconciliation and integration", European Journal of Marketing, 46, 7, p. 1053
[172] The RepTrak Company (2022), "The ultimate reputation guide", p. 6
[173] Ibid., p. 7

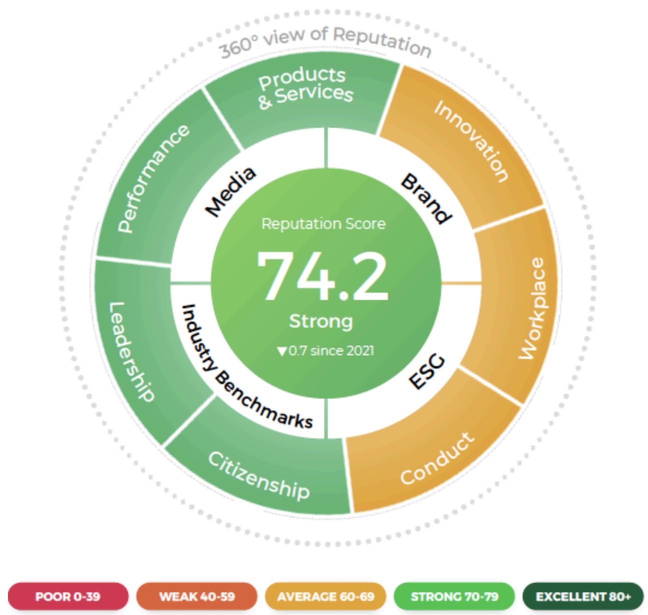

Figure 19: RepTrak's Reputation Score 2022. The figure shows the assessment areas on which the score is calculated

From this model we can see that corporate reputation has various facets and it is the result of different variables that put together convey an image to stakeholders. We have dimensions which focus on what the organization does, who the company is and which are its values. However, the management cannot have the control over all the variables illustrated, but it can just influence them through their actions, decisions, behavior, and communication which may lead to the desired outcome.

3.3.2 CUSTOMER BASED REPUTATION SCALE

The second reputation assessment method presented is the Customer Based Reputation Scale. It was developed by Walsh and Beatty in 2007 and measures the reputation coming from a specific stakeholder group: customers. As said before, various perceptions of the same company may arise among different stakeholder groups and for this reason the two authors created this model for the consumers category which is believed to be the most important for the organizational survival – they are the primary source of revenues, and they influence a company reputation through word of mouth and social media interactions [174]. Customer based reputation is defined as "the customer's overall evaluation of a firm based on his or her reactions to the firm's goods, services, communication activities, interactions with the firm and/or its representatives or constituencies (such as employees, management, or other customers) and/or known corporate activities" [175].

The Customer Based Reputation Scale was developed and tested in three American service companies and was made of five dimensions of customer's perceptions:

- Customer orientation;
- Good employer;
- Reliable and financially strong company;
- Quality of products and services;
- Social and environmental responsibility.

Each dimension was measured with specific indicators (28 in total) through online surveys involving customers of bank institutions, retails, and fast-food restaurants. Respondents had to report which indicators were influencing more the creation of a positive reputation by customers, and through statistical calculations and metrics the rating scale was created.

Then, other two studies have been carried in 2009 in Germany and in the United Kingdom. In Germany, the customers involved in the survey were all users of internet service companies (e.g. Yahoo!, eBay, Google, Amazon). In the United Kingdom, respondents had to provide answers relating to their current provider in one of these three sectors: banking services, retailing, and fast-food restaurants (like in the 2007 research). At the end, both studies end up with Customer Based Corporate Reputation scales similar to the ones of the first study.

This reputation assessment method differs from the RepTrak® since it focuses just on a single category of stakeholders. Additionally, the number of indicators under measurement is lower, but the variables under attention are pertaining to the same typologies of the ones first model. This is to highlight the fact that even if reputation varies

[174] G. Walsh, S. E. Beatty (2007), "Customer-based corporate reputation of a service firm: scale development and validation", Journal Academy of Marketing Science, 35(1), p. 127-143

[175] G. Walsh, S. E. Beatty (2007), "Customer-based corporate reputation of a service firm: scale development and validation", Journal of the Academy of Marketing Science, 35, 1, p. 129

with stakeholders, at the end – for each group of stakeholders analyzed – the variables are similar in nature.

3.3.3 FORTUNE'S MOST ADMIRED COMPANIES

The third and last method discussed in this paper is the Fortune's Most Admired Companies model. According to Fortune's website, the 2022 sample of companies under consideration for making the ranking were the 1000 largest US companies ranked by turnover along with the 500 non-US corporations of the Fortune's Global 500 ranking with revenues equal or higher than $ 10 billions [176]. Then, these identified companies are grouped into industries or sectors of activity, and for each of them, the ten largest non-US companies and the 15 US largest companies were selected. After that, to determine the final ranking, Korn Ferry – a management consulting firm – asked through a survey addressed to executives, directors, and analysts, to give a rate based on nine indicators to the companies included in the sample and pertaining to the sector of their competence. Among the nine criteria used there were: investment value, innovation, proper usage of resources, financial stability, quality of management and products, efficiency in global affairs, social responsibility, and ability to attract talent [177].

The peculiarity of this last model lies in the selection of the respondents: unlike previously seen models, the stakeholders selected here are sector experts. In addition, the rankings resulting from each evaluation model are very different from each other as they derive from different measurement scales and consider slightly different variables. Therefore, the proper corporate reputation assessment method must be selected on the basis of the particular needs of businesses, the importance given to the various stakeholders, the sector in which they operate, and many other characteristics.
However, these models may be subject to criticism since corporate reputation is frequently seen as an abstract and intangible asset which is difficult to measure, and for this reason also the choice of the right method may be complex since a unique

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176 https://fortune.com/franchise-list-page/methodology-worlds-most-admired-companies-2022/
177 Ibid.

reputational index does not exist. Despite this shortcoming, corporate reputation assessment tools like the ones described in this paper may be valid signals for stakeholders in decision-making processes when they are unaware of the status of a company.

Generally, according to Nelli, the methodologically correct procedure for measuring corporate reputation involves carrying out the following common research steps [178]:

1) Identification of a set of variables which influence reputation by analyzing the company and the context in which it operates;
2) Construction of a representative sample of stakeholders from which collecting feedbacks on the various indicators identified in the previous step;
3) Calculation for each indicator the average opinion expressed by the respondents;
4) Determination of the overall score by aggregating the average scores obtained for each variable;
5) Standardization of scores and comparison of them among companies and competitors.

Figure 20: Corporate reputation common indicators

[178] R. P. Nelli (2012), "Corporate Reputation: valore per l'impresa, garanzie per il consumatore", pp. 98-99

3.4 REPUTATION AND CORPORATE SUSTAINABILITY

From the previous paragraphs we saw what corporate reputation is and how it can be measured in order to obtain insights to be improved by companies. Now, let's analyze which is the link between reputation and corporate sustainability practices since authors like Lubin and Esty claim that "how executives respond to the challenge of sustainability will profoundly affect the competitiveness and even the survival of organizations" [179]. Some researchers and academics think that sustainability practices can enhance the reputation of an organization and that the adoption of Corporate Social Responsibility practices is a current challenge of marketing strategies. Some believe that transparent and open behaviors help corporations to protect, establish or enhance their reputation since it is a mean for both creating value and fostering public accountability. Supporting this theory is the research made by Martínez and Rodríguez del Bosque which found out that "economic, social and environmental domains of sustainability have a direct and positive effect on both corporate image and reputation. Moreover, [...] results support the idea that efforts made by companies toward sustainability will be rewarded by the projection of a positive corporate image, which will lead to increasing corporate reputation" [180].

The relationship between sustainability reporting and corporate reputation can be explained by the following five theories:

- Legitimacy theory: according to this theory, sustainability reporting is considered a tool for managing legitimacy and reputation, as a response to pressures coming from stakeholders. It is an external communication strategic tool with the ambition of being public accountable in order to gain the legitimation to operate and to make the public believe that corporate actions are appropriate and in accordance with social norms.
- Impression management theory: according to this theory, the sustainability report is seen as a mean to interact and dialogue with the public and the company's stakeholders with the objective of influencing their perceptions.

[179] D. A. Lubin, D. C. Esty (2010), "The sustainability imperative", Harvard Business Review, 88(5), 42–50 cited by P. Martínez, I. Rodríguez del Bosque (2014), "Sustainability Dimensions: A Source to Enhance Corporate Reputation", Corporate Reputation Review, Vol. 17, No. 4, p. 239

[180] P. Martínez, I. Rodríguez del Bosque (2014), "Sustainability Dimensions: A Source to Enhance Corporate Reputation", p. 240

- Reputation risk management: according to this managerial practice, sustainability reporting is a tool for mitigating reputational risk.
- Agency theory: according to this theory, the sustainability report is a tool for the exchange of information from the agents to the principals in order to reduce information asymmetries and to promote disclosure transparency.
- Signaling theory: according to this theory, sustainability reporting is an approach used by the management to communicate the corporate reputation to stakeholders.

For all these reasons, sustainability is included nowadays in corporate reputational strategies since it is seen as a variable that should be managed in order to show to outside parties and actors that the organization is aware of the emerging sustainability issues. As cited in the previous paragraphs, Fombrum and Shanley highlighted the fact that internal and external stakeholders are influenced by the corporate reputation when they make decisions involving the company and for this reason it is considered as an important asset that must be constantly managed in order to generate future financial and competitive benefits. Sustainability can be considered in this way as a mean to manage reputational risk. As written by Kuruppu and Milne, sustainability initiatives produce legitimating outcomes and for this reason have an impact on reputation [181]. Sustainability commitment and the disclosure of these efforts enhance the confidence of stakeholders by influencing perceptions of a firm's behavior, credibility, and ethics.
Legitimation requires stakeholder engagement practices which have the ambition of involving stakeholders in business decisions. Stakeholder inclusiveness is fundamental for a business and for this reason it is also one of the GRI Reporting Principles for defining report content. As stated by the GRI 101, "the reporting organization shall identify its stakeholders, and explain how it has responded to their reasonable expectations and interests. […] Systematic stakeholder engagement, executed properly, is likely to result in ongoing learning within the organization, as well as increased accountability to a range of stakeholders. Accountability strengthens trust between the organization and its

[181] S. Kuruppu, M. J. Milne (2010), "Dolphin deaths, organizational legitimacy and potential employees: reactions to assured environmental disclosures", Accounting Forum, 34(1), 1–19 cited by A. Alon, M. Vidovic (2015), "Sustainability Performance and Assurance: Influence on Reputation", Corporate Reputation Review, Vol. 18, No. 4, p. 338

stakeholders. Trust, in turn, strengthens the credibility of the report" [182]. Stakeholder engagement is at the base of sustainability reporting since it helps organizations in the prioritization process of the topics to be included in the report. According to the materiality matrix, the relevant or material topics that have to be disclosed in the Sustainability Report are the ones which have a major economic, environmental, and social impact or the ones which influence more the decisions of stakeholders [183]. However, of recent introduction is the new GRI Universal Standards 2021 version (updating the GRI Universal Standards 2016) which among the other things, also revised the materiality approach: in the materiality analysis, the impact of an organizational topic on stakeholders is not considered anymore as a requisite to determine the materiality of that argument. In fact, "feedback indicated that this approach and the use of the materiality matrix, provided in the guidance to the Materiality principle in GRI 101: Foundation 2016, often led to biases and incorrect interpretations of these dimensions. […] In the revised Standards, 'material topics' are defined as topics that represent an organization's most significant impacts on the economy, environment, and people, including impacts on their human rights. The 'influence on the assessments and decisions of stakeholders' is no longer a standalone factor that determines whether a topic is material" [184].

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[182] GRI (2020), "Consolidated set of GRI Sustainability Reporting Standards", p. 8
[183] Ibid., p. 10
[184] GRI (2022), "GRI Universal Standards 2021 Frequently Asked Questions (FAQs)" available at https://www.globalreporting.org/media/zauil2g3/public-faqs-universal-standards.pdf

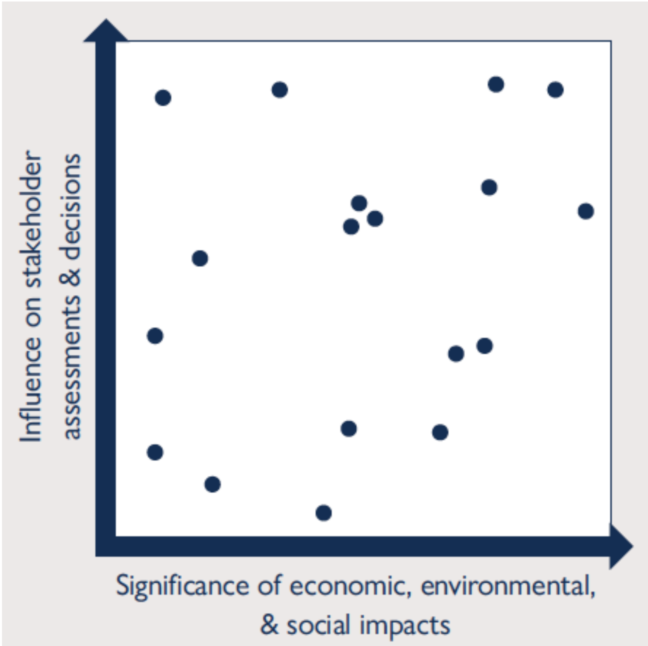

Figure 21: Materiality matrix

Following this concept of stakeholder inclusiveness, the adoption of sustainability practices has led to less scrutiny by the public, less media attention and higher public tolerance in case of scandals. Therefore, the commitment to corporate sustainability is relevant not only during normal times, but also, and especially, in times of crisis. A recent study conducted by Piyasinchai [185] analyzed the relationship between corporate reputation developed through ESG practices and situations of crisis in which they receive more critics and attention. The result of the research showed that a positive ESG reputation (the firm is known for positive social and environmental performance) built during critical periods will lead to positive effects in the years following the crisis. Further, retail insights showed that sustainable brands produced by companies which are deeply committed to sustainability do better during market downturns with respect to traditional firms which do not engage in sustainable initiatives, and obtain also better retail shelf placement [186]. Therefore, it is important that companies are committed to their sustainable activities, not only from an environmental point of view but also from a social and economic one since stakeholders do not analyze only product variables, but also

[185] N. Piyasinchai (2021), "Corporate Sustainability Reputation Matters Most During Crises"
[186] M. Houlihan, B. Harvey (2018), "It's Official: Customers Prefer Sustainable Companies", Entreprenuer; J. Neff (2010), "Has Green Stopped Giving", Ad Age cited by K. Cartera, S. Jayachandran, M. R. Murdock (2021), "Building A Sustainable Shelf: The Role of Firm Sustainability Reputation", Journal of Retailing 97, p. 508

firms' characteristics. Therefore, sustainability may act as a barrier which mitigates the negative effects of scandals or crisis for the preservation of value creation. This suggests that executives and managers of organizations have to focus even more on the marketing implications related to the corporate sustainability actions and policies adopted by a company, since researchers demonstrated a positive relationship between sustainability and corporate reputation and image. However, as reported by Bansal and DesJardine, a distinction between Corporate Social Responsibility (CSR) and the adoption of sustainability initiatives by organizations has to be made. According to them, CSR is about addressing stakeholders' interests and influencing third parties' opinions (like media) to enhance corporate reputation, meanwhile sustainability is aimed at ensuring long-term value creation by answering to stakeholders' needs while limiting or eliminating negative externalities [187]. Since creating a valuable company is expensive nowadays, the engagement in CSR initiatives can be an additional mean to increase the visibility of the brand and a marketing tool to indirectly increase revenues. However, according to Porter and Kramer, the adoption of CSR practices often leads to public cynicism and suspicion [188] since consumers may think about "greenwashing". The "greenwashing" risk is associated to practices which tend to capitalize on benefits coming from a business approach based on the emphasis of sustainability initiatives (e.g. for the attraction of eco-conscious consumers), in order to try to divert attention from unethical conducts or from behaviors not properly aligned with the principles of sustainability. This is also called "attention deflection" and has the aim of highlighting and communicating information about positive impact of a company activity to avoid disclosing the whole of its performances (which may be not so significant in terms of sustainability commitment). "Greenwashing" risk is becoming more serious in the light of the progressive empowerment of stakeholders in social media channels, which pushes in the direction of greater transparency in describing corporate sustainability initiatives and which creates more opportunities to express

[187] T. Bansal, M. DesJardine (2015), "Don't Confuse Sustainability with CSR," Ivy Business Journal available at https://iveybusinessjournal.com/dont-confuse-sustainability-with-csr/

[188] M. E. Porter, M. R. Kramer (2007), "Strategy and society: the link between competitive advantage and corporate social responsibility", Harvard Business Review, Vol. 84 No. 12, pp. 78-92

doubts and criticisms, to expose complaints on behaviors not perceived as fully responsible and credible [189].

This trend of increased transparency and media exposure can be supported by a research conducted by Michelon, in which the author finds out that "companies that are committed to stakeholders, and that are monitored by stakeholders through media exposure, are more likely to disclose information on the social and environmental impact of their activities. The empirical evidence, therefore, supports the fact that sustainability disclosure is driven by reputation both in terms of the commitment and engagement to stakeholders and by the media visibility of the company" [190]. So, the higher is the media exposure of a company, the more information will be provided to stakeholders for the social commitment evaluation. However, worth to highlight is also the fact that "sustainability performance is a complex construct whose evaluation requires techniques and knowledge that stakeholders most often lack. In addition, stakeholders hardly access information about sustainability performance. When they do, this information had already passed through the filter of sustainability disclosure and is thus likely to be limited or biased" [191]. For this reason, academics noticed that in cases where information is imperfect and impacts are difficult to assess, an organization's past reputation is fundamental as a starting point for stakeholders' evaluations and decisions [192]. As reported in the previous paragraphs, reputation is a social construct which arises from general and diversified information which internal and external stakeholders continuously collect about companies over time. Those information cover a wide range of topics like products' characteristics, management capabilities, ownership structure, strategic decisions, risks, financial results, sustainability commitment and so on. Most of them are easily understood and assessed by users of corporate reports, but the majority of sustainability information are complex to assess and to observe, so stakeholders have gaps in understanding them. For this reason, they form their evaluation on the assessment

[189] C. Fieseler, M. Fleck, M. Meckel (2010), "Corporate Social Responsibility in the Blogosphere", Journal of Business Ethics, vol. 91, n. 4, pp. 599-614

[190] G. Michelon (2011), "Sustainability Disclosure and Reputation: A Comparative Study", p. 93

[191] S. Touboul (2013), "The strategic value of Sustainability and its Disclosure: Three essays on the Impact of Sustainability Performance, Disclosure & Reputation on the Firms' Financial Performance", Ecole des Hautes Etudes Commerciales de Paris, p. 31

[192] K. Weigelt, C. Camerer (1988), "Reputation and corporate strategy: A review of recent theory and applications", Strategic Management Journal, 9(5): 443-454 in ibid., p. 32

of previous years reputations. “Prior reputation consequently acts as a distorting prism that influences how stakeholders perceive a firm’s actual sustainability performance” [193]. Thus, most of times stakeholders evaluate a firm’s sustainability performance through past data on which a company has limited control upon.

Furthermore, reputation can also be seen as a determinant variable which influences what organizations decide to disclose since usually companies take into account stakeholders’ expectations and adjust the information disclosed according to them. It follows that the better is a company’s past years reputation, the higher are the stakeholders’ expectations on sustainability performance [194]. However, for this high reputed organizations, the reputational risk of not satisfying expectations can have more dramatic consequences than for firms with low reputation. “All other things being equal, the higher a firms’ prior reputation, the more chance it has to be at odds with stakeholders’ sustainability expectations. If stakeholders were to discover that a firm with high reputational attributes did not conform to their sustainability performance expectations, they may penalize it and withdraw their support” [195]. That is why better reputed companies tend to disclose less, in order to reduce reputational risk. By disclosing less or incompletely on sustainability, companies give less insights and for this reason stakeholders have difficulties in evaluating the actual performance. On the other hand, firms with low reputation do not suffer high pressure and expectations from stakeholders, and for this reason they are just focused on “reassuring its stakeholders that it implements at least a few good practices. It can do so by adopting an extensive disclosure. In addition, a firm with low prior reputation faces stakeholders that will scrutinize intensely. They inspect in more detail any behavior and do not trust any fuzzy information” [196]. However, with the increasing regulation and pressure from stakeholders asking for more sustainability disclosure, this argument would be challenged in the future since also well reputed firms will have to disclose according to the transparency requirement levels, having then to reduce the reputational risk in other ways since in the trade-off between being punished for not complying either with sustainability expectations, or with

[193] Ibid.

[194] S. Touboul (2013), “The strategic value of Sustainability and its Disclosure: Three essays on the Impact of Sustainability Performance, Disclosure & Reputation on the Firms’ Financial Performance”, p. 120

[195] Ibid.

[196] Ibid., p. 121

transparency requirements, they risk more by not conforming to the second one [197] (even though the reputational damages are high in both situations).

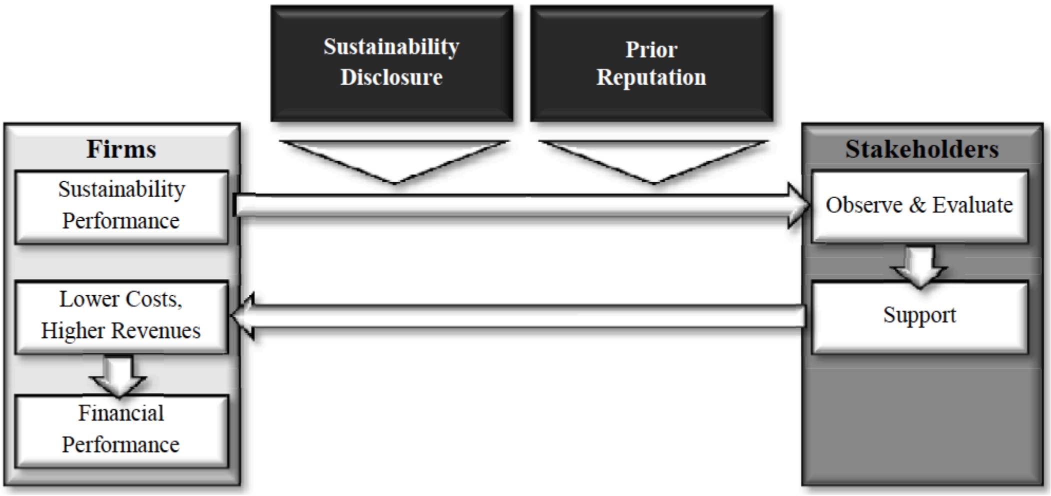

Figure 22: The role of sustainability disclosure and prior reputation

To conclude this chapter, we are currently living in a period where the public is increasingly focused on tax matters. As seen in the tax chapter, various international, supranational, and national organizations and authorities are putting the spotlight on unethical behaviors concerning tax payments, and the fairness in taxation or fair share taxation are driving the political and societal agenda, exposing corporations to new reputational risks concerning ethical behaviors related to this new trend.

For this reason, very interesting for the sake of this paper is the understanding of which are the real motives that make companies to disclose tax information by adopting the voluntary GRI 207: Tax standard. This is because according to Pineiro-Chousa et al., sustainability management and disclosure can be considered more as hedging tools for protecting companies from reputational risk and to allow them to reduce the potential loss of reputational value, instead of voluntary initiatives driven by a sense of responsibility and ethics for the impacts that business activities bring on the society.

Further, tax scandal phenomena as LuxLeaks, Panama Papers and Paradise Papers have increased the media exposure and interest on tax matters since currently transparency and external communication to stakeholders seem inevitable. That is why companies are starting to implement tax strategies and disclose them in sustainability reports through

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[197] Ibid., p. 125

the GRI 207 standards – or other requirements – in order to demonstrate to the public how taxes are handled by the company in order to avoid reputation damage.
So, the final research question that this thesis will try to answer is: “Is the adoption of the GRI 207 a mean to protect reputation and to avoid scandals?”.

CHAPTER 4

A COMPARATIVE STUDY ON GRI 207: TAX 2019 ADOPTION AND CORPORATE REPUTATION RELATIONSHIP

4.1 INTRODUCTION AND SAMPLE CONSTRUCTION

As introduced in the previous chapters, this last section of the thesis is focused on addressing the following research question "Is the adoption of the GRI 207: Tax 2019 a mean to protect corporate reputation and to avoid scandals or an ethical choice?". This exploratory study is the direct consequence of the lack of literature regarding this topic – due to the recent introduction of the Global Reporting Initiative tax standard and since previous studies focused just on the relationship between reputational costs and tax avoidance behaviors – and it could give very interesting insights to gain knowledge regarding companies' behaviors on whether they adopt the GRI tax disclosure measure just to manage reputational risks or because they are really committed to sustainability matters. Thus, the starting point of this analysis is the previous research and literature's results on the relationship between corporate reputation and income tax contribution footprints, and the influences of governance characteristics on both reputation and transparency.

Recalling the previous chapters, tax disclosure and reputation are linked by the fact that nowadays (particularly during times of crisis) the public is interested in corporate tax revenues and the focus is mostly put on the business giants which should contribute with a fair share of tax to the community wellbeing and development. Explicative is the case of Starbucks which in 2012 announced its commitment to pay on a voluntary basis more taxes of those due, after a series of negative media exposures regarding its tax behavior and practices.

Tax has become in this way a reputational issue and not only a sustainability one. Moreover, not only the general public is interested in tax behaviors of organizations, but also financial investors which when making investment assessments, translate corporate tax avoidance activities in increased legal, operational, reputational, financial and/or governance risks [198], which may result in damaging the outcomes for their returns. Further, tax disclosure allows investors to assess which portion of revenues comes from real business activities, and which part comes from aggressive strategies aimed at reducing taxable income, in order to understand the real value generated by companies, as well as its sustainability over time. So, reporting tools and mechanisms which disclose how the corporate tax structure and strategy are managed are thought to enhance not only corporate reputation, but also investors' confidence. Therefore, the question on why a company adopts the GRI 207: Tax 2019 standard arises spontaneously: is it a strategic choice to manage reputational risk linked to tax scandals or just an ethical choice?

In this thesis this research question is addressed by building on a sample of corporations ranked in the Fortune 500 Global List (published on 2 August 2021), and starting from it, the first 250 companies will be considered. The Fortune 500 is an annual rank made by the Fortune magazine and is composed by the largest global corporations in terms of turnover (total revenues) for their financial year 2020 (ended on or before March 31, 2021). The worldwide companies included in the rank are both public and private, and involve all business sectors and industries [199]. The choice of using Fortune 500 Global List for this research is that these companies have a high visibility which may influence the international business environment, due to the fact that they may have a potentially large influence on other firms. Moreover, this list of business giants has been chosen since empirical evidence showed that high quality reporting is strongly associated to organizational size and sector (the Fortune Global 500 rank involves all sectors and considers just the largest corporations), highlighting also a positive link with environmentally sensitive industries [200]. Furthermore, as Fortanier and Kolk demonstrated, "with increasing size, firms become more visible and so do their environmental impacts, thus exposing them to increased public pressure to report more extensively" [201].

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198 https://www.unpri.org/Uploads/t/r/l/PRI_Evaluating-and-engaging-on-corporate-tax-transparency_Investor-guide.pdf

199 https://en.wikipedia.org/wiki/Fortune_Global_500

200 S. Brammer, S. Pavelin (2008), "Factors Influencing the Quality of Corporate Environmental Disclosure", Business Strategy and the Environment 17 (2), pp. 120–136

201 F. Fortanier, A. Kolk (2007), "On the Economic Dimensions of Corporate Social Responsibility", Business & Society, p. 469

Thus, after having chosen the starting group of corporations, in order to construct the sample on which a comparative analysis will be developed, the focus has been directed only on those companies which published a Sustainability Report in 2021, since the standard GRI 207: Tax 2019 entered into force for sustainability reports published after 2021. From a starting list of 250 companies, 178 of them published a Sustainability Report in 2021 – which is the 71% of the initial group of entities. Then, six business economic sectors were chosen and the sample of companies to be analyzed have been categorized according to the NACE Rev. 2 Codes [202]: Arts, Entertainment and Recreation; Construction; Financial and Insurance Activities; Information and Communication; Transportation and Storage; Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles.
After this selection, the number of enterprises in the group under analysis is 100 but a further step has to be undertaken in order to conduct our research: there is the need to determine which are the companies that disclose tax information through the adoption of the GRI 207: Tax 2019, and which are the ones which do not disclose any data about tax strategies and commitments. In this regard, a further reduction of the sample is needed in order to remove those companies which do not make any reference to the GRI standards (26 corporations) and the new group of entities under analysis is consisting of 74 businesses. Then, after consulting corporate sustainability reports and GRI content indexes, the end result is that 20 companies adopt the taxation standard promoted by the Global Reporting Initiative, meanwhile 40 do not disclose anything about tax related matters (but prepare their sustainability reports in accordance with the GRI Standards). To develop a more significant research, in the sample have been removed 14 firms which are the ones that disclose tax information on their 2021 Sustainability Report, but that do not apply the GRI 207: Tax standard.

[202] NACE is the acronym of the French term "Nomenclature statistique des Activités économiques dans la Communauté Européenne" which is basically the statistical classification of economic activities in the European Union. It was developed in 1970 and provides uniform codes for classifying business activities in order to allow comparability when making statistic evaluations. In this thesis the NACE Rev. 2 Codes are used since in 2006 revising activities were implemented. From EUROSTAT (2008), "NACE Rev. 2: Statistical classification of economic activities in the European Community", pp. 13-17

SAMPLE CONSTRUCTION	
Fortune Global 500 List: first 250 companies	250
- Companies not having a sustainability report	- 72
- Companies not pertaining to the 6 sectors chosen	- 78
- Companies which do not make reference to the Global Reporting Initiative	- 26
- Companies Disclosing about tax matters but not through the GRI 207: Tax 2019	- 14
FINAL SAMPLE	**60**

Figure 23: Sample construction

So, on a sample of 74 companies, the 27% disclose information about tax matters and make a declaration of compliance with the standard GRI 207; the 54% do not carry any tax transparency initiative; and the remaining 19% disclose tax information but not through the adoption of the GRI 207.

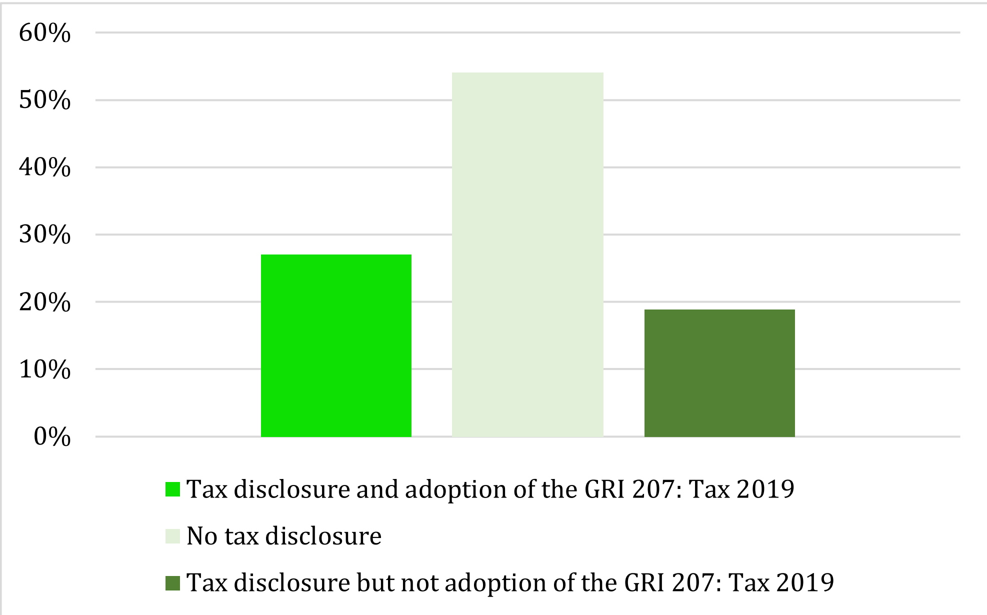

Figure 24: Tax transparency level

To conclude, only two categories will be taken in the final sample for the objectives of this research: the 20 companies of the "Tax disclosure and adoption of the GRI 207: Tax 2019" category, and the 40 ones of the "No tax disclosure" category. Here are presented summary tables with the 60 final corporations that will be analyzed, grouped according to their industry of reference (classified through the NACE Rev. 2 Codes).

- Arts, Entertainment and Recreation

COMPANY	INDUSTRY	COUNTRY	TAX DISCLOSURE
Walt Disney	Entertainment	USA	YES

- Construction

COMPANY	INDUSTRY	COUNTRY	TAX DISCLOSURE
Vinci	Engineering & Construction	France	YES

- Information and communication

COMPANY	INDUSTRY	COUNTRY	TAX DISCLOSURE
International Business Machines	Information Technology Services	USA	YES
JD.com	Internet Services and Retailing	China	NO
Huawei Investment & Holding	Network and Other Communications Equipment	China	NO
Cisco Systems	Network and Other Communications Equipment	USA	NO
Telefónica	Telecommunications	Spain	YES
Deutsche Telekom	Telecommunications	Germany	NO
AT&T	Telecommunications	USA	NO

- Transportation and storage

COMPANY	INDUSTRY	COUNTRY	TAX DISCLOSURE
United Parcel Service	Mail, Package, and Freight Delivery	USA	NO
U.S. Postal Service	Mail, Package, and Freight Delivery	USA	NO
FedEx	Mail, Package, and Freight Delivery	USA	NO
Deutsche Post DHL Group	Mail, Package, and Freight Delivery	Germany	NO

- Financial and insurance activities

COMPANY	INDUSTRY	COUNTRY	TAX DISCLOSURE
Agricoltural Bank of China	Banks: Commercial and Savings	China	NO
Wells Fargo	Banks: Commercial and Savings	USA	YES
Banco Santander	Banks: Commercial and Savings	Spain	YES
Bank of America	Banks: Commercial and Savings	USA	NO
Bank of China	Banks: Commercial and Savings	China	NO
State Bank of India	Banks: Commercial and Savings	India	NO
China Everbright Group	Banks: Commercial and Savings	China	NO
China Merchants Bank	Banks: Commercial and Savings	China	YES
Mitsubishi UFJ Financial Group	Banks: Commercial and Savings	Japan	NO
JPMorgan Chase	Banks: Commercial and Savings	USA	NO
Industrial Bank	Banks: Commercial and Savings	China	NO
Industrial & Commercial Bank of China	Banks: Commercial and Savings	China	NO
Brookfield Asset Management	Diversified Financials	Canada	NO
EXOR Group	Diversified Financials	The Netherlands	YES
Anthem	Health Care: Insurance and Managed Care	USA	NO
Humana	Health Care: Insurance and Managed Care	USA	NO
AIA Group	Insurance: Life, Health (stock)	China	NO
Allianz	Insurance: Life, Health (stock)	Germany	YES
Prudential Financial	Insurance: Life, Health (stock)	USA	NO
Power Corp. of Canada	Insurance: Life, Health (stock)	Canada	NO
China Pacific Insurance (Group)	Insurance: Life, Health (stock)	China	NO
MetLife	Insurance: Life, Health (stock)	USA	NO
Manulife Financial	Insurance: Life, Health (stock)	Canada	YES
Dai-ichi Life Holdings	Insurance: Life, Health (stock)	Japan	NO
Legal & General Group	Insurance: Life, Health (stock)	UK	NO
Zurich Insurance Group	Insurance: Property and Casualty (Stock)	Switzerland	YES
Talanx	Insurance: Property and Casualty (Stock)	Germany	YES
Munich Re Group	Insurance: Property and Casualty (Stock)	Germany	YES

- Wholesale and retail trade, repair of motor vehicles and motorcycles

COMPANY	INDUSTRY	COUNTRY	TAX DISCLOSURE
Walgreens Boots Alliance	Food & Drug Stores	USA	NO
Carrefour	Food & Drug Stores	France	YES
Kroger	Food & Drug Stores	USA	NO
Walmart	General Merchandisers	USA	YES
Target	General Merchandisers	USA	NO
CVS Health	Health Care: Pharmacy and Other Services	USA	NO
Cigna	Health Care: Pharmacy and Other Services	USA	NO
Alimentation Couche-Tard	Specialty Retailers	Canada	NO
Best Buy	Specialty Retailers	USA	NO
Lowe's	Specialty Retailers	USA	NO
Home Depot	Specialty Retailers	USA	YES
Xiamen C&D	Trading	China	NO
Trafigura Group	Trading	Singapore	YES
Mitsui	Trading	Japan	YES
Mitsubishi	Trading	Japan	YES
COFCO	Trading	China	NO
Sysco	Wholesalers: Food and Grocery	USA	NO
AmerisourceBergen	Wholesalers: Health Care	USA	YES
Cardinal Health	Wholesalers: Health Care	USA	NO

These final 60 corporations included in the sample, are geographical dispersed around 12 main countries, with the majority of them coming from the USA (43%) and from China (20%). Looking at the 12 countries where those organizations have their origin or their headquarters, all of them enact some tax transparency initiative which can be both voluntary or not, at national or supranational level (e.g. Japan does not have any tax disclosure initiative but adheres to the OECD Common Reporting Standard, which has been endorsed not only by the OECD countries, but also by Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Latvia, Lithuania, Malaysia, Saudi Arabia, Singapore, and South Africa).

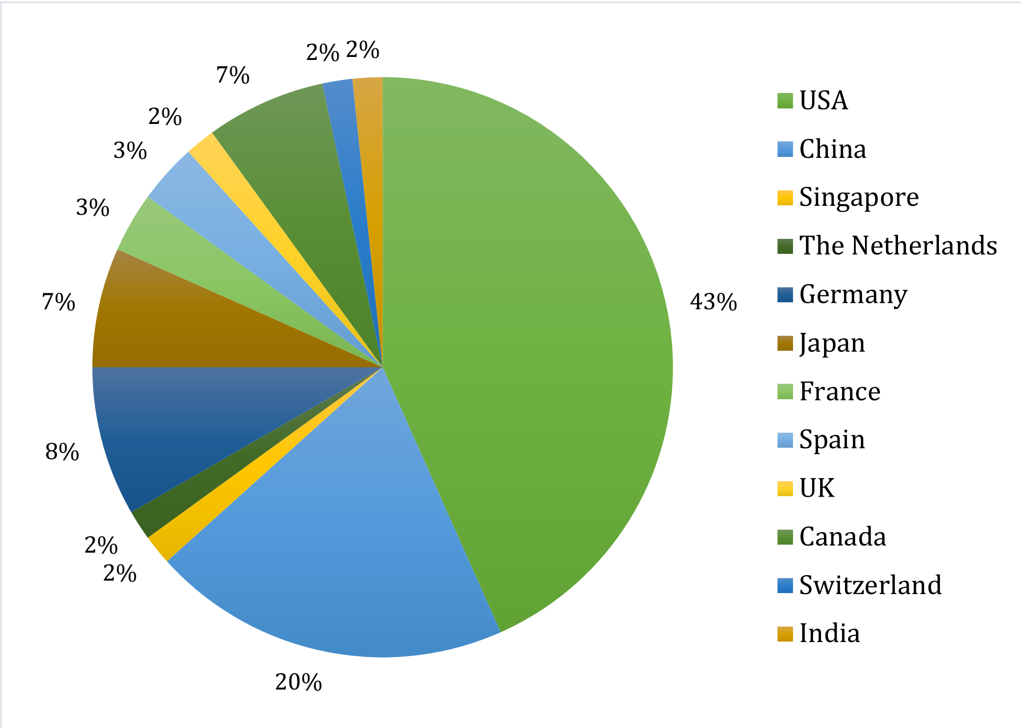

Figure 25: Geographical dispersion of the companies in the sample

Among the countries with 100% of tax disclosure compliance there are France (with 2 companies), Singapore (with one company), Spain (with 2 companies), Switzerland (with one company), and the Netherlands (with one company). On the opposite side, countries with 0% of tax transparency efforts are the United Kingdom (with one company) and India (with one company). However, those results are biased due to the fact that the sample is very small. More significant evidence can come from the sample of US companies which on a total of 26, only 6 disclose tax information through the standard GRI 207: Tax 2019, an the remaining 20 do not adopt tax transparency reporting. Significant can also be the sample of Chinese companies, which on a total equal to 11 organizations, only one adopts the GRI 207 for disclosing tax data.

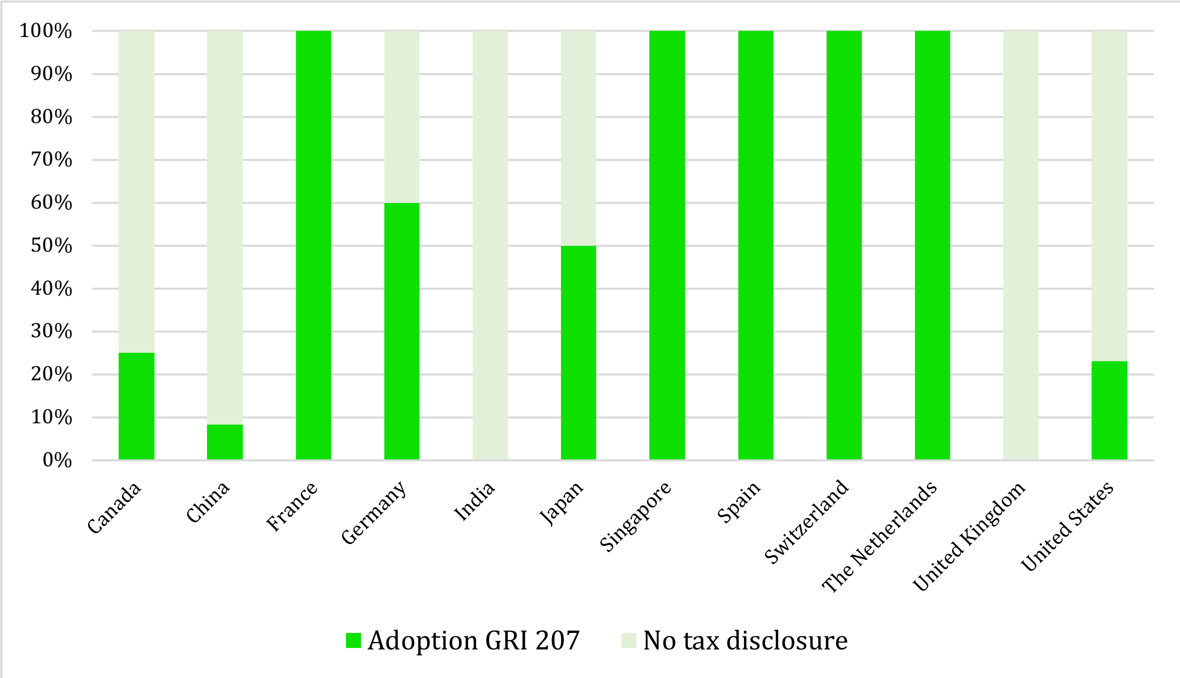

Figure 26: Level of tax disclosure per country

4.2 LEVEL OF ADOPTION OF THE GRI 207: TAX 2019

Since sustainability reports are characterized by a low level of standardization due to the fact that there are not globally accepted and mandatory standards to be followed, the first step of this research involves a preliminary content analysis in which a judgment on the level of compliance with the standard GRI 207: Tax 2019 is made. As represented in the graph below, a general assessment of the disclosure sections of the standard used by companies has been made, and more specifically, companies have been categorized in 4 main groups: those with a level of 25% compliance are the entities which have adopted just 1 section of the guideline; those with 50% compliance have adopted two disclosure sections; the ones with 75% of adoption level have reported on three sections; and finally, the companies with a 100% score are the ones which have complied with all four disclosure requirements. Data have been taken from the sustainability reports published in corporate websites during the year 2021 and which make reference to the 2020 fiscal year (ended on or before March 31, 2021). Looking at the graph below, the average level of commitment to tax transparency is equal to the 71% with 8 companies over 20 disclosing at the 100% level. Among these eight companies, 2 come from Germany, 2 from the United States, 1 from France, 1 from Spain, 1 from Singapore, and 1 from Switzerland. For what concerns the industry analysis, 3 companies pertain to the Financial and Insurance Activities, 3 to the Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles, and 2 to the Information and Communication sector.

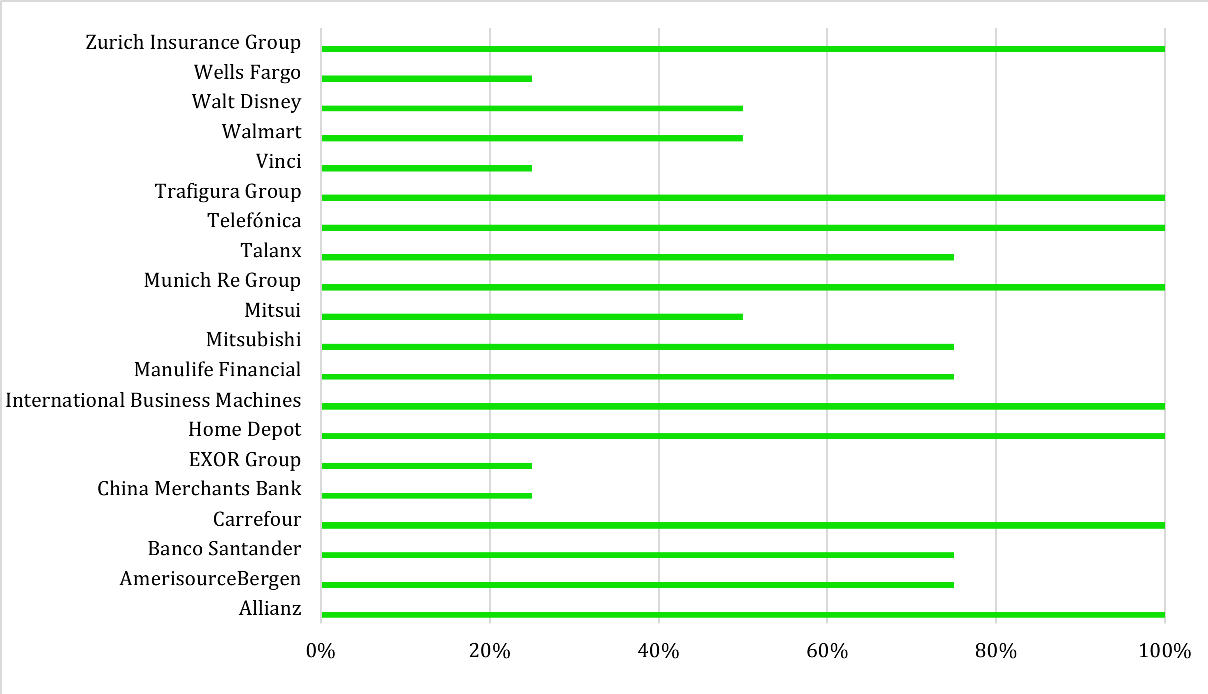

Figure 27: Level of adoption of the standard GRI 207: Tax 2019

4.3 RESEARCH METHOD AND DATABASE CONSTRUCTION

Considered the early development of the academic literature, the research method is structured in a comparative analysis developed through the construction of a database with the meaningful sustainability and governance variables in order to evaluate if tax transparency measures adopted by companies using the GRI standard on taxation are tools to avoid scandals and thus to preserve or enhance corporate reputation. This comparative study is carried by making a confront of the same chosen variables with organizations which do not report anything on tax matters. The evidence of this research is the result of a mixed empirical methodology, merging both qualitative and quantitative

approaches. Moreover, a remark has to be made: each corporation has its own approach on tax disclosure through the GRI standard and each organization is subject to a different level of reputational risk, so the major objective of our research is to identify trends in the sample in order to evaluate if there is a possible association between the adoption of transparent measures in tax reporting and the avoidance of scandals or corporate crisis.
Thus, after having defined the sample on which the comparative research will be carried, the following step involves the database construction with the significant variables to analyze. The sustainability variables identified have been extracted by Refinitiv, which is a provider of industry data and information to financial professionals. It is "one of the most comprehensive ESG databases in the industry, covering over 80% of global market cap, across more than 450 different ESG metrics" [203]. All the data included in the database have been accessed on 31 January 2022 and the indicators chosen are:

- ESG Controversies Score (based on 2020 data): this variable gives a rating from 0 to 100 based on the environmental, social, and governance controversies exposure of a company, and the consequential negative effects reported by global media. It is calculated on the basis of 23 ESG topics and "during the year, if a scandal occurs, the company involved is penalized and this affects their overall ESGC score and grading. The impact of the event may still be seen in the following year if there are new developments related to the negative event, for example, lawsuits, ongoing legislation disputes or fines" [204]. Furthermore, important is the fact that the score "also addresses the market cap bias from which large-cap companies suffer, as they attract more media attention than smaller-cap companies" [205]. The ESG Controversies Score is a significant variable for the research since higher the score is, higher the reputational risk of a company included in the sample could be. This measure in conjunction to the level of tax disclosure through the GRI 207: Tax 2019, could give valuable insights on the reason why a company engages in tax transparency initiatives.

[203] https://www.refinitiv.com/content/dam/marketing/en_us/documents/brochures/eikon-overview-brochure.pdf
[204] Refinitiv (2021), "Environmental, Social and Governance Scores from Refinitiv", p. 7
[205] Ibid.

- Business Ethics Controversies (based on 2021 data): this variable provides the number of controversies related to ethical matters (like political corruption or bribery) published in the global media. According to Refinitiv Eikon, this variable considers class actions filed against a company as a result of not following ethical behaviors. As the previous variable, the higher the score is, the higher the reputational risk can be for a company.

- Tax Fraud Controversies (based on 2021 data): this variable provides the number of controversies related to tax matters (like tax frauds and money laundering or other actions in order to avoid paying taxes in a jurisdiction) published in the global media. Like the previous controversies scores, even with this variable, the higher it is, the worst it is in terms of reputation risk. Further, since this indicator has a focus on illicit tax behaviors, it should be the most significant variable for the study. According to a study conducted by Kao and Liao, "using a sample of public U.K. firms, […] empirical analysis reveals that firms engaging in higher levels of tax avoidance are more likely to provide tax-specific disclosures in their CSR reports" [206].

- CSR Sustainability External Audit (based on 2020 data): this variable provides if a company has subject it CSR or sustainability report to the control of an external auditor. This indicator was taken for the database construction since it could be a signal of a company which tries to enhance corporate reputation and credibility by undertaking an independent and external assurance process. Theory confirmed by Simnett et al. which in 2009 found out that businesses trying to increase their credibility and reliability of sustainability reports to build a solid corporate reputation are more likely to have them assured [207]. According to the International Auditing and Assurance Standards Board, an assurance engagement is "an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party

[206] W. C. Kao, C. H. Liao (2021), "Tax Avoidance and Tax Disclosures in Corporate Social Responsibility Reports in the United Kingdom", Journal of International Accounting Research, Vol. 20, No. 3, p. 59

[207] R. Simnett, A. Vanstraelen, W. F. Chua (2009), "Assurance on Sustainability Reports: An International Comparison", The accounting review, Vol. 84, No. 3, pp.937-367

about the outcome of the evaluation or measurement of a subject matter against criteria" [208].

- <u>Governance Pillar Score</u> (based on 2020 data): the Governance Pillar Score is a Refinitiv indicator calculated as "the weighted average relative rating of a company based on the reported governance information and the resulting three governance category scores" [209] which are stakeholders, CSR strategy and management. It could be considered as a significant variable that signals integrity and a good governance structure composed by a board which understands the importance of corporate reputation, good management, stakeholders engagement, adoption of sustainability practices and transparency commitments to reduce possible negative risks. Good governance can be defined as the "coherence in the manner on how an organization is managed, controlled and supervised, aimed at the efficient and effective realization of objectives, as well as communicating this in a transparent way and being accountable to it to all stakeholders" [210].

Additionally to the Governance Pillar Score, other governance variables have been identified in order to gain knowledge and valuable insights to the research study, since literature provides that also those kind of variables influence corporate reputation and sustainability disclosure. According to the OECD, corporate governance "involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good Corporate Governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring"

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208 https://www.ifac.org/system/files/downloads/b003-2010-iaasb-handbook-framework.pdf, p. 6

209 Eikon Corporate Governance variables excel file

210 J. Bossert (2002), "Good governance: de leidraad voor goed bestuur en management", Overheidsmanagement (9), 244-248 cited by E. van der Enden, B. Klein (2020), "Good Tax Governance? …Govern Tax Good!", available at SSRN: https://ssrn.com/abstract=3610858 or http://dx.doi.org/10.2139/ssrn.3610858

[211]. Basically, corporate governance is the solution to the principal-agent problem which entails the separation of the controlling powers between management and ownership. This separation of roles creates issues like asymmetric information and possible principle-agent conflicts of interests. Corporate governance acts in this sense as a mechanism for mitigating those problems and is fundamental to reduce agency costs, alleviate conflicts and allow shareholders (which are the owners of the company) to ensure that the actions taken by the management are in their best interests (maximizing their financial returns) while also achieving the corporate goals and objectives [212]. That is why according to Oats and Tuck, "transparency has been associated with good governance for the last twenty or more years and with enhanced democracy" [213].
Moreover, in 2010 Michelon and Parbonetti conducted a study on US and European companies and found out that corporate governance is a key internal factor that in accordance with the stakeholder theory plays a role in influencing the heterogeneity of sustainability reporting [214]. Corporate governance can be seen as an important system for the assessment of sustainability disclosure (and also tax disclosure) since ESG transparency has become nowadays an imperative to management.
Thus, two corporate governance variables have been taken into consideration for the development of this comparative study and the values of the identified indicators have been found through the Orbis database which is a Bureau van Dijk's flagship company database. It contains all the relevant and public information regarding worldwide organizations and has a major focus on privately held entities data. It presents information of about 400 million companies from all nations [215].

- Board of Directors size (based on 2021 data): this governance variable may be significant for the objective of the research since the size of the government body

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[211] OECD (2004), "OECD Principles of Corporate Governance", p. 11 available at https://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf
[212] C. Weir, D. Laing, P. J. McKnight (2002), "Internal and external governance mechanisms: their impact on the performance of large UK public companies", Journal of Business Finance & Accounting, Vol. 29 Nos 5/6, pp. 579-611
[213] L. Oats, P. Tuck (2019), "Corporate tax avoidance: is tax transparency the solution?", Accounting and Business Research, 49:5, p. 566
[214] G. Michelon, A. Parbonetti (2010), "The effect of corporate governance on sustainability disclosure", Journal of Management and Governance, 16(3), p. 503
[215] https://en.wikipedia.org/wiki/Bureau_van_Dijk

of a company actively influences the company's choices in the reporting scope and strategic dimension. It is expected to be the decision body which implements disclosure policies at company level. According to the agency theory, "larger board size can reduce managerial domination of the board, thus large boards are often found more effective at mitigating potential conflict of interests. [...] A larger board represents a larger pool of talent and resources, thus having a higher resource capacity to advising firms on sustainability issues. Moreover, since directors facilitate the inter-organizational imitation of strategies and practices, companies with larger boards are more likely to keep abreast with the latest sustainability reporting trends through director networks. Empirical evidence suggests a positive impact of board size on sustainability reporting" [216]. Thus, this indicator can give evidence on whether companies' directors are aware of new sustainability disclosure practices like the standard GRI 207: Tax 2019 and on whether this reporting method can "protect" the organization from possible reputational risks related to the lack of transparency.

- ESG Committee (based on 2021 data): this variable indicates the presence of a committee which is dedicated to the sustainability issues and impacts of a company. It is usually called "CSR Committee" and is a commitment which more and more organizations are implementing. "A CSR committee typically is in charge of reviewing policies and conducts with respect to the company's principles and commitment on sustainability issues and it is involved in the reporting process of social and environmental information" [217]. In addition to giving signals to the external public of a commitment towards sustainability, it can also be viewed as a tool for enhancing stakeholder engagement, corporate reputation and as a mean to overcome the legitimacy gap problem. It follows that it can be a significant variable for the comparative study if put in relation with the other indicators explained before.

[216] M. Hu, L. Loh (2018), "Board Governance and Sustainability Disclosure: A Cross-Sectional Study of Singapore-Listed Companies", Sustainability, 10, 2578, p. 2
[217] G. Michelon, A. Parbonetti (2012), "The effect of corporate governance on sustainability disclosure", p. 486

4.4 RESULTS

Results on the variables identified above have been analyzed mainly through descriptive statistics tools, like the average of the values of the indicators in the sample and the frequency of those values, in order to gain knowledge on a trend of behaviors. However, for what concerns reputational indicators, the intent was to use the Fortune's Most Admired Companies assessment tool, which is provided by the same business magazine and which ranks the 50 best reputed global firms. But on a sample of 60 corporations only 11 of them were included in the list, and since it does not exist a comprehensive database with all the corporate reputation scores of the companies included in the sample of this research (thus we could not have a proper score for each company coming from a single database which measures reputation with the same methodology), it will be assumed that the level of sustainability scandals incurred – so the negative media and public opinion exposure – could be considered as a proxy indicator for the representation of possible risks of reputational damage. Thus, the ESG Controversies Score variable will be used as benchmark for the sake of this analysis and higher the number of controversies related to ESG issues are, higher will be the reputational threat of an organization, and lower will be the reputational level of that company in comparison to other entities with no pending sustainability controversies or scandals.

COMPANY	FORTUNE'S MOST ADMIRED COMPANIES RANK (2022)
Walt Disney	5
JPMorgan Chase	10
Walmart	15
FedEx	16
Target	19
Home Depot	24
CVS Health	27
United Parcel Service	31
Bank of America	39
Lowe's	44
International Business Machines	46

Table 3: Fortune's Most Admired Companies ranking of the companies contained in the sample

Furthermore, due to the fact that the ESG Controversies Score will be used as a proxy for representing possible reputational damage risks, if we compare the average Score of the organizations included in the Fortune's Most Admired Companies rank with respect to the average Score of the ones not included in the corporate reputation list, we can see the average number of sustainability related scandals is higher for firms not present in the "Most Admired" group. However, these results may be considered as not so much significant since the two samples compared have a different size of population, thus findings may be not so representative.

	AVERAGE ESG CONTROVERSIES SCORE
Companies included in the Fortune's Most Admired Companies	35
Companies not included in The Fortune's Most Admired Companies	64

Table 4: Comparison between the average ESG Controversies Score of businesses included in the Fortune's Most Admired Companies list and the one of those not included

4.4.1 ESG CONTROVERSIES SCORE

As explained before, this indicator gives a rating from 0 to 100 based on the environmental, social, and governance controversies exposure of an organization. The details of the results are below, but when assessing them we have to bear in mind that the Refinitiv Eikon is updated on a continuous basis since ESG news and controversies change continuously (due to an amplified effect by global media). In the table below, it is presented a data elaboration which put in comparison the level of tax disclosure through the GRI 207: Tax 2019 standard and the level of controversies related to ESG matters of the companies which comply with the GRI tax standard. As we can see, in green are identified those controversies scores which are considered as "good" and fall in the range [0, 25]; in yellow those which are a little bit higher, but that are still good ratings and which fall in the range [26, 50]; then, in orange are highlighted the scores which may treat the reputation of a company since they are quite high and are included in the range [51, 75]; and finally we have the red scores, which are very high and represent a real threat to the corporate reputation if not managed immediately and fall in the domain [76, 100]. From this classification we can assess that among the companies with the highest level of disclosure, the 63% of them has a very low rating for what concerns ESG controversies, meanwhile the 25% has a very high score denoting that sustainability scandals are a real threat to the long-term viability of the organizations.

COMPANY	LEVEL OF TAX DISCLOSURE THROUGH THE GRI 207	ESG CONTROVERSIES SCORE (2020)
Allianz	100%	13,73
Carrefour	100%	20,51
Home Depot	100%	21,21
International Business Machines	100%	100
Munich Re Group	100%	100
Telefónica	100%	27,88
Trafigura Group	100%	0
Zurich Insurance Group	100%	13,73
AmerisourceBergen	75%	2,63
Banco Santander	75%	15,95
Manulife Financial	75%	100
Mitsubishi	75%	58,33
Talanx	75%	100
Mitsui	50%	58,33
Walmart	50%	1,28
Walt Disney	50%	7,58
China Merchants Bank	25%	0
Wells Fargo	25%	14,66
Vinci	25%	100
EXOR Group	25%	N/A

Table 5: Comparison between GRI 207: Tax 2019 compliance level and ESG Controversies Score

On the other hand, there is also the detail table with the companies which do not disclose anything about tax matters, and if we consider the ones with an acceptable ESG controversies score (the ones highlighted in green and yellow), the percentage of corporations is equal to the 44%; meanwhile the percentage of the ones with a score which is considered too high to not have a possible reputational threat (the ones highlighted in orange and red), is equal to the 56%.

COMPANY	ESG CONTROVERSIES SCORE (2020)

China Everbright Group	0
COFCO	0
Huawei Investment & Holding	0
U.S. Postal Service	0
Cardinal Health	6,41
AT&T	7,69
Target	7,89
FedEx	8,33
CVS Health	8,7
Sysco	9,48
Bank of America	12,07
Mitsubishi UFJ Financial Group	12,07
JPMorgan Chase	14,66
Kroger	16,67
Walgreens Boots Alliance	20,51
Cisco Systems	21,88
JD.com	42,11
Anthem	60,87
Cigna	60,87
State Bank of India	67,95
Bank of China	69,4
Industrial & Commercial Bank of China	90,09
Deutsche Telekom	93,27
Agricoltural Bank of China	100
AIA Group	100
Alimentation Couche-Tard	100
Best Buy	100
Brookfield Asset Management	100
China Pacific Insurance (Group)	100
Dai-ichi Life Holdings	100
Deutsche Post DHL Group	100
Industrial Bank	100
Legal & General Group	100
Lowe's	100
MetLife	100
Power Corp. of Canada	100
Prudential Financial	100
United Parcel Service	100
Xiamen C&D	100
Humana	N/A

Table 6: ESG Controversies Score of companies not adopting tax transparency measures

To sum up the findings through this variable, if we compute the average ESG Controversies Score for both companies which adopt the GRI 207: Tax 2019 and the ones which do not public their tax affairs, the number of sustainability controversies is lower for the ones which adopt tax transparency mechanisms.

	AVERAGE ESG CONTROVERSIES SCORE
YES TAX DISCLOSURE	44
NO TAX DISCLOSURE	64

Table 7: Average ESG Controversies Score between GRI 207 compliant and not compliant companies

Moreover, if we look at the last row of the below table, a further feature can be observed since on a sample of 23 companies with a ESG controversies score contained in the range [76, 100], just the 22% is made by companies which use the GRI 207, meanwhile the 86% is made by organizations which do not make efforts in reporting tax matters. It follows that from this first variable, there seems to be a positive relation between tax disclosure through the GRI tax standard and positive corporate reputation related to sustainability concerns.

ESG CONTROVERSIES SCORE	NUMBER OF COMPANIES	YES TAX DISCLOSURE	NO TAX DISCLOSURE
From 0 to 25	21	43%	57%
From 26 to 50	2	50%	50%
From 51 to 75	6	33%	67%
From 76 to 100	23	22%	86%

Table 8: Comparison between level of tax transparency and ESG Controversies Score

Moreover, as written in the description of the variable, important is also the fact that the score already addresses the market cap bias which arises from the bias that large companies attract more media coverage than small ones. However, from the analysis it seems that larger-cap companies (the ones with the higher rank in the Fortune Global 500 list in terms of turnover) are the ones with better ESG controversies score. The organizations with a score included between 0 and 50 have an average rank of 91; meanwhile the ones with a score included between 51 and 100 have an average rank of 133.

Interesting to assess is also the concept exposed in the paragraph 3.4 “Reputation and Corporate Sustainability”, in which researchers found out that better reputed companies tend to disclose less, in order to reduce reputational risk of not complying with stakeholders' high expectations. Looking at the database constructed for this research, the companies with a ESG score included in the range [0, 25] which disclose tax information through the GRI 207 are the 43%, meanwhile the ones which do not disclose anything about tax behaviors are the 57%. Thus, it seems that also from our sample the trend that organizations with higher reputation disclose less is respected, since in this way they give less insights to stakeholders on sustainability performance, and it follows that third parties will have more difficulties in assessing the actual behavior of companies in relation to tax contributions and strategies. However, due to the sample selection characteristics applied, companies adopting other forms of tax disclosure different from the GRI one were removed, so possible biases may interfere with this result in the sense that there may be additional organizations transparent on tax affairs (but not adopting the GRI 207).

Result 1: *There seems to be a negative relation between the adoption of the GRI 207 and the number of ESG related scandals. However, it seems that no tax affairs disclosure is a predominant trend also among high reputed firms.*

4.4.2 BUSINESS ETHICS CONTROVERSIES

Business ethics controversies is a variable which should provide the number of controversies related to ethical matters (like corruption and bribery) according to what published in global media. In theory it is a significant indicator since, as the ESG controversies score, it identifies the companies with a higher or lower level of reputational risk. However, according to the Refinitiv database, only four companies have a score which is different from zero and included in the range 1-3 (AT&T, JPMorgan Chase, Industrial & Commercial Bank of China, and Sysco), meanwhile for all the other companies of the sample the score is zero. Thus, this variable is not so significant for our research and the database can be considered as weak in this regard. However, from the summary table below, we can see that the only organizations which have a business ethics controversies score higher than zero are the ones which do not disclose any kind of tax information. Therefore, even though the variable is weak, we can assume that even this indicator shows a slight positive association between the adoption of the GRI 207: Tax 2019 standard and corporate reputation.

BUSINESS ETHICS CONTROVERSIES	NUMBER OF COMPANIES	YES TAX DISCLOSURE	NO TAX DISCLOSURE
From 1 to 3	4	0%	100%
0	50	36%	64%

Table 9: Comparison between level of tax disclosure and Business Ethics Controversies number

Result 2: *There seems to be a weak negative relation between the adoption of the GRI 207 and the level of corporate reputation related to business ethics.*

4.4.3 TAX FRAUD CONTROVERSIES

Tax fraud controversies is another variable which indicated the number of controversies, but this time the ones related to tax scandals (like tax frauds and other actions with the aim of avoiding tax contributions). Due to the fact that the main focus of this indicator are tax frauds, in theory it should be the most significant variable since it puts in relation aggressive tax behaviors and tax scandals to the level of tax disclosure. Despite this, in realty the Refinitiv Eikon database is weak also for this variable, since it provides a number of controversies only for three companies (Industrial & Commercial Bank of China, JPMorgan Chase, and Walmart). All the other companies of the sample under analysis have a score equal to 0, not allowing in this way to conduct a proper research through this important variable. However, as for the previous one, we can see that among the 3 companies which have a positive number of controversies, 2 of them do not disclose tax information, meanwhile the one remaining (Walmart) discloses tax behavior and contributions through the standard GRI 207 (even though it has a compliance level of 50% since it reports only according to the disclosures 207-1 and 207-2). So, to conclude, even there it seems that there is a weak negative relation between number of scandals and level of disclosure of tax information. This association can also be supported by the fact that the only company which has a score different from zero and which adopts the GRI 207, complies only for the 50% with the standard (Disclosure 207-1: Approach to tax and Disclosure 207-2: Tax governance, control, and risk management).

TAX FRAUD CONTROVERSIES	NUMBER OF COMPANIES	YES TAX DISCLOSURE	NO TAX DISCLOSURE
From 1 to 2	3	33%	67%
0	51	33%	67%

Table 10: Comparison between level of tax disclosure and Tax Fraud Controversies number

<u>Result 3</u>: *There seems to be a weak negative relation between the adoption of the GRI 207 and the level of corporate reputation related to tax scandals.*

4.4.4 CSR SUSTAINABILITY EXTERNAL AUDIT

This variable provides us with information regarding whether a company has its sustainability report assured by an independent and external auditor. It was taken as indicator to gain knowledge about the link between corporate reputation and the adoption of the GRI 207 since the assurance practice has an impact on reputation and credibility. According to Birkey, Michelon, Pattena and Sankara, "assurance on the reports is significantly related to environmental reputation as captured by Newsweek magazine's environmental reputation scores. We also find that the positive relation between assurance and environmental reputation hold, regardless of assurer type" [218]. Thus, since Birkey et al. showed this positive association between external assurance of CSR reports in the U.S. with environmental reputation, we can transfer this logic to our analysis and we can assume that if a company has its sustainability report assured, it undertakes this effort to enhance credibility and reputation. It follows that if companies undertake additional costs to have their reports assured, they may also adopt transparency measures like tax information reporting through the GRI 207 standard, to enhance their corporate reputation and manage reputational threats. However, looking at the summary

[218] R. N. Birkey, G. Michelon, D. M. Patten, J. Sankara (2016), "Does assurance on CSR reporting enhance environmental reputation? An examination in the U.S. context", Accounting Forum, 40:3, p. 150

table below, just the 32% of the organizations in the sample both comply with the tax standard and have their sustainability reports assured. On the contrary, the 68% of the companies do not engage in tax information reporting but assure their Corporate Social Responsibility reports. This may be a signal that report assurance could be a valid alternative tool to enhance reputation, avoid scandals and manage risks (instead of committing resources for both assurance and additional disclosure of voluntary information).

CSR SUSTAINABILITY EXTERNAL AUDIT	NUMBER OF COMPANIES	YES TAX DISCLOSURE	NO TAX DISCLOSURE
Yes	37	32%	68%
No	8	25%	75%

Table 11: Comparison between level of tax disclosure and CSR Sustainability External Audit

Analyzing this variable from another perspective, if we divide the sample in two groups – the ones which adopt the GRI 207 and the ones which do not – we can observe that for the first group, the 86% make their reports assured, meanwhile the remaining 14% not. Looking at the other group of "not transparent" companies, the 81% have their sustainability disclosure audited and the remaining 19% not. However, worth to be highlighted is the fact that the in the first group are contained just 14 companies (small sample bias), meanwhile in the second group a broader population is included (31 organizations).

Moreover, if we link the ESG Controversies Score to the assurance variable, we can observe that the average number of controversies for companies which have their sustainability report assured is 57, and for the ones which do not is equal to 55. Thus, also from this variable, weak evidence of the relation between reputational risk and assurance engagements can be obtained. To sum up, from this variable no significant results have arisen since enterprises which may want to protect or increase corporate reputation may choose just one alternative among assurance and tax disclosure.

<u>Result 4</u>: *There seems not to be a relation between the adoption of the GRI 207, the assurance of the sustainability reports and the level of corporate reputation.*

4.4.5 GOVERNANCE PILLAR SCORE

The Governance Pillar Score provides us with an indicator which evaluates the appropriateness of the governance structure of a company. As described previously, it takes into account three governance categories (stakeholders, management and CSR strategy), and for the sake of this research it could give insights regarding the behaviors of organizational governance bodies and of their prioritization choices for what concerns tax disclosure. According to the database constructed, the companies with a higher Governance Pillar Score (from 76% to 100%) are the 34% of the total sample, but just the 38% of them disclose tax strategies and contributions through the GRI 207; meanwhile the remaining 62% does not disclose anything about tax. As we can see from the summary table below, as the governance rating decreases – denoting lower level of governance – also the percentage of companies complying with the tax standard decreases. Thus, it seems that there is a positive association between Governance Pillar Score and tax transparency choices.

GOVERNANCE PILLAR SCORE	NUMBER OF COMPANIES	YES TAX DISCLOSURE	NO TAX DISCLOSURE
From 76 to 100	21	38%	62%
From 51 to 75	21	33%	67%
From 26 to 50	7	29%	71%
From 0 to 25	3	0%	100%

Table 12: Comparison between level of tax disclosure and Governance Pillar Score

To conduct a further analysis, if we divide the sample in two groups – the ones which adopt the GRI 207 and the ones which do not – we can observe that for the first group (17 companies), the average Governance Pillar Score is equal to 70. Meanwhile for the second category (35 companies), the average score is 66. Considering the fact that the two obtained average scores are near and the fact that in the second group the sample is two times the first one in size, this second result is not so much significant for assessing the relationship between tax affairs transparency and good governance.

However, we have to take into consideration also the reputational side of this relationship and we can assess it by comparing the Governance Pillar Score to the ESG controversies rating (which has been the most significant variable until this point of the analysis).
Looking at the table below, low Governance Pillar Scores are not matched by high numbers of ESG controversies. Moreover, even if we take into consideration the interval of high Governance Pillar Scores [76, 100], we can see that even there are present some outlier companies which present a sustainability controversies score which is very elevated. Thus, from this second part of analysis concerning the Governance Pillar Score variable, we can assume that there is not a significant relation between good governance and good management of sustainability risks to preserve or enhance reputation.

COMPANY	GOVERNANCE PILLAR SCORE	ESG CONTROVERSIES SCORE
China Merchants Bank	0	0
Trafigura Group	0	0
Carrefour	43,98	20,51
Wells Fargo	48,88	14,66
Mitsui	51,45	58,33
International Business Machines	51,94	100
Talanx	55,14	100
Walt Disney	58,66	7,58
Telefónica	60,98	27,88
Manulife Financial	65,16	100
Home Depot	65,39	21,21
Mitsubishi	78,46	58,33
Walmart	79,9	1,28
Munich Re Group	83,51	100
Zurich Insurance Group	85,25	13,73
Vinci	85,91	100
AmerisourceBergen	86,17	2,63
Banco Santander	88,4	15,95
Allianz	95,82	13,73
EXOR Group	N/A	N/A

Table 13: Comparison between ESG Controversies Score and Governance Pillar Score of companies complying with the GRI 207

Result 5: *There seems to be a positive relation between the adoption of the GRI 207 and good governance. However, not significant evidence was observed on the relationship between good governance level and corporate reputation.*

4.4.6 BOARD OF DIRECTORS SIZE

The first governance variable taken into consideration after the summary measure of the Governance Pillar Score is the size of the Board of Directors. Using this indicator measures both how much dispersed is the decision making process of a company and which are the main influences which lead to the final disclosure reports. As described in the paragraph 4.3 – Research method and database construction, previous research suggested a positive association between the board size and sustainability reporting. Looking at the summary table below, we can see that this trend seems to be confirmed until a certain point, in fact until the range of Board members equal to [18, 24] the level of commitment to tax transparency through the adoption of the standard GRI 207: Tax 2019 increases. However, in the last range with Board size included between 25 and 30, we obtained a 0% compliance with tax reporting standards and this result is in accordance with Mahmood et al. which reported that "an ideal board size varies between 5 and 16 depending upon the size, industry, complexity, and nature of the organization" [219] Furthermore, the highest level of tax disclosure through the GRI standard is in the Board size range [19, 24], and according to Laksmana there is a positive association between board size and the level of voluntary disclosure since a large Board provides various competencies and knowledge that help mitigating the principal-agent problem relating to conflict of interests [220]. Thus, even if previous research results are sometimes conflicting, the majority of them establish a positive association between Board of Directors size and sustainability reporting. It follows that our findings are in some way in compliance with prior literature since, as we can see form the summary table, large boards (up to a certain limit) have more influence on tax disclosure.

BOARD SIZE	NUMBER OF COMPANIES	YES TAX DISCLOSURE	NO TAX DISCLOSURE
From 1 to 6	4	25%	75%

[219] Z. Mahmood, R. Kouser, W. Ali, Z. Ahmad, T. Salman (2018), "Does Corporate Governance Affect Sustainability Disclosure? A Mixed Methods Study", Sustainability, 10, 207, p. 3

[220] I. Laksmana (2008), "Corporate board governance and voluntary disclosure of executive compensation practices", Contemp. Account. Res., 25, 1147–1182 cited by Z. Mahmood, R. Kouser, W. Ali, Z. Ahmad, T. Salman (2018), "Does Corporate Governance Affect Sustainability Disclosure? A Mixed Methods Study"

From 7 to 12	17	29%	71%
From 13 to 18	28	39%	61%
From 19 to 24	7	43%	57%
From 25 to 30	4	0%	100%

Table 14: Comparison between tax transparency level and Board of Directors size

A further insight for the objective of this research can come from the comparison of the ESG controversies score, to the adoption of the GRI 207 and to the size of the Board of Directors of the companies involved in the sample. As we can see from the table below, for all categories of Board size except one (the one with the range between 7 and 12), the average sustainability controversies score is always lower for tax transparent companies. Thus, we may assume that the adoption of the reporting standard can be a mean to avoid scandals related to ESG matters. Furthermore, we can observe that the optimal Board size level with less ESG scandals and adopting the GRI tax requirement is the one with maximum 6 members, thus there seems to be a negative relationship between sustainability reputational risk and Board size.

BOARD SIZE	YES TAX DISCLOSURE	AVERAGE ESG CONTROVERSIES SCORE (YES TAX DISCLOSURE)	NO TAX DISCLOSURE	AVERAGE ESG CONTROVERSIES SCORE (NO TAX DISCLOSURE)
From 1 to 6	25%	14	75%	64
From 7 to 12	29%	51	71%	49
From 13 to 18	39%	40	61%	56
From 19 to 24	43%	43	57%	46
From 25 to 30	0%	0	100%	92

Table 15: Comparison between tax transparency level, ESG Controversies Score and Board of Directors size

Result 6: *There seems to be a positive relation between the adoption of the GRI 207 and the size of the Board of Directors. Moreover, there seems also to be a negative association between sustainability reputational risk and Board size.*

4.4.7 ESG COMMITTEE

The presence of an ESG committee should be a variable significant for the adoption of more transparent behaviors related to sustainability practices. It is a corporate governance mechanism which could be seen as a signal to external stakeholders to highlight the social and environmental commitment of the company, a legitimation tool for the management and also a mean to enhance corporate reputation. An ESG committee has usually the responsibility "for the effective operation of a company's ESG policy, and has delegated responsibility for overseeing its implementation. The committee reviews data from across the business and then filters and summarizes it for the board. The ESG committee is responsible for writing the ESG content in the company's annual report and producing all information relating to ESG disclosures" [221]. As previously cited, the presence of an ESG committee is usually positively related to the quantity and quality of the sustainability topics reported, even though there are some studies which produced weak results. If we look at the findings of our research in the summary table below, just the 37% of organizations with a CSR committee adopt the GRI 207, meanwhile the remaining 63% do not engage in tax disclosure. However, if we look at the companies which do not have a sustainability committee, the percentage of the entities complying with the tax standard decreases even more, highlighting the fact that the presence of an ESG function may slightly promote a broader compliance with the tax transparency initiative. From this first analysis, there seems to be a weak relationship between the presence of an ESG body and the adoption of the GRI 207: Tax 2019.

ESG COMMITTEE	NUMBER OF COMPANIES	YES TAX DISCLOSURE	NO TAX DISCLOSURE
Yes	49	37%	63%
No	11	18%	82%

Table 16: Comparison between tax transparency level and the presence of an ESG Committee

However, if we look the situation from another perspective by dividing the sample in two groups – the ones which adopt the GRI 207 and the ones which do not – we can observe that for the first group composed by 20 organizations, the 90% of the has a sustainability

[221] https://vinciworks.com/blog/what-does-an-esg-committee-do/

governance body, meanwhile the remaining 10% not. In the second category (40 companies), the 75% created an ESG Committee, and the remaining 25% not. Thus, there seems to be a strong evidence on the positive association between tax transparency decisions and the presence of an ESG body at the top level of the corporations.

Moreover, if we take also into consideration the ESG Controversies Score (which can be treated as a reputation measure which identifies organizations with low ESG controversies as the ones with lower reputational risk), we can see from the below table that the majority of companies with lowest level of controversies related to sustainability concerns are the ones which have an ESG body. However, this evidence is not so significant because also the majority of companies with the highest number of controversies are the ones which have a sustainability committee. It follows that there is not strong evidence that the creation of an ESG committee decreases the reputational threat related to sustainability controversies. Nevertheless, worth to highlight is the fact that nowadays the creation of a CSR committee is a common trend and that it does not mean that the company which has it complies with ethical practices. Furthermore, those controversies may have been arisen prior to the adoption of an ESG body and for this reason there could not be any relation among the two variables analyzed. Additionally, since we did not take into consideration the "age" of the committee, we cannot assess since when organizations have started considering sustainability matters at governance level, thus if the committee is of recent creation, its effects may not be evident yet.

ESG CONTROVERSIES SCORE	YES ESG COMMITTEE	NO ESG COMMITTEE	YES TAX DISCLOSURE	NO TAX DISCLOSURE
From 0 to 25	81%	19%	41%	59%
From 26 to 50	100%	0%	50%	50%
From 51 to 75	100%	0%	33%	67%
From 76 to 100	74%	26%	22%	78%

Table 17: Comparison between tax transparency level, presence of an ESG Committee and ESG Controversies Score

Result 7: *There seems to be a positive relation between the adoption of the GRI 207 and the presence of an ESG committee. However, there seems not to be a link between corporate reputation related to sustainability matters and the presence of a CSR body.*

4.5 DISCUSSION ON FINDINGS AND RESEARCH LIMITS

The comparative research carried out in this thesis explores the possible relationship between the adoption of the standard GRI 207: Tax 2019 and governance actions undertaken by companies in order to avoid sustainability related scandals to protect corporate reputation.

In the light of the analysis done, different results have been obtained from the seven variables chosen. Some of them gave significant evidence, meanwhile others were weak due to the lack of meaningful data coming from the information provider used. Significant results came from the ESG Controversies Score which highlighted that companies adopting the GRI 207: Tax 2019 standard had a low number of scandals relating to the sustainability dimension. As mentioned in the first part of the Results paragraph, ESG controversies was taken as a proxy indicator for measuring the level of corporate reputation risk of the organizations included in the sample. CSR scandals like the ones involving the fast fashion brand H&M (which after having launched a sustainable clothing line, in 2021 the report by Changing Markets Foundation found out that the company not only used "more synthetics than in its main collection, but also one in five items analyzed were found to be made from 100% fossil-fuel derived synthetic materials" [222]), Volkswagen (with cars emitting 40 times more than the permitted amount of nitrogen oxide pollutants in 2015), and Nike (accused in 1991 of poor working conditions and low wages in Indonesian factories), had those corporations facing significant financial, operational, and reputational crisis. As said by the consultant Linnea Texin, some possibilities for coming back from an ESG scandal are: take responsibility of the mistake made and recognize the problem; take action to improve and to avoid committing a similar damage; and most importantly be transparent [223]. This is why the ESG Controversies Score can be a significant indicator for identifying organizations with high reputational threats and those firms adopting reporting transparency activities to demonstrate that they are committed to restore prior reputation and to re-gain legitimation to operate.

[222] https://www.jumpstartmag.com/top-5-greenwashing-scandals-of-the-past-decade/

[223] https://ccbriefing.corporate-citizenship.com/2016/09/01/corporate-responsibility-scandals-whats-the-damage/

Furthermore, this theory is also supported by the researcher Caroline Dale Ditlev-Simonsen, which stated that “many of the companies who write the most about social responsibility are some of the worst offenders” [224].

However, from this research weak results came from the most important variables like Business Ethics Controversies and Tax Fraud Controversies due to the poor data coming from the Refinitiv database. Thus, proper findings cannot be obtained from these two indicators. For what concerns the assurance variable, surprisingly it has not been highlighted a significant association between the adoption of assurance engagements and the number of sustainability scandals. Despite this result, a possible explanation to this finding can be the fact that the practice of having the sustainability report assured by external and independent third parties can be an alternative tool for overcoming ESG crisis. A company instead of engaging in further sustainability transparency related to other topics like tax contributions, it may prefer to enhance or restore reputation through external audit. This practice may be considered in some way as a greenwashing mechanism, since companies choose to emphasize good performance on sustainability reporting through external assurance by not disclosing failure in other areas as tax payments, in order to not compromise reputation (“attention deflection”).

Findings from Corporate Governance variables show that organizations with a good governance score (which is based on the assessment of the stakeholder engagement, the management effectiveness, and the adoption of sustainability (or CSR) measures) tend to disclose more about tax contributions through the GRI 207: Tax 2019 standard. However, further analysis shows that there is not a significant relationship between the number of ESG scandals and the Governance Pillar Score. This result may be explained by the fact that the date in which sustainability scandals occurred was not taken into consideration in our analysis, so positive or negative outcomes resulting from the actions undertaken by Directors may not be significant yet. Furthermore, misconducts may have happened before the current governance body was appointed, so not clear evidence can be observed from this variable. For what concerns other Governance variables, Board of Directors size findings are more pronounced and in line with previous literature. In fact, according to descriptive statistics tools used, there seems to be a positive association between the adoption of the GRI 207: Tax 2019 standard by companies and the size of the Board (until

224 https://www.bi.edu/research/business-review/articles/2015/05/scandals-make-corporations-write-gushing-csr-reports/

a certain size point in which the tax disclosure compliance level falls dramatically due also to the small sample bias). This is explained by prior researches which found out that a broader governance body includes different expertise, knowledge and background, allowing in this way a more democratic and differentiated decision process on reporting scope. Moreover, data seem to suggest that if we compare companies with the same range of Board of Directors size, the ones which adopt the GRI tax disclosure guideline tend to have a slightly lower (or just in one case slightly higher) number of ESG scandals than the ones which avoid tax transparency.

The last variable involves the analysis of the trends of companies which have an ESG Committee versus the ones which do not have it. Results show that there is a positive evidence explaining the relationship between the existence of a CSR Committee and the adoption of the GRI 207: Tax 2019, but there is not significant data supporting the hypothesis that there is an association between the number of sustainability scandals and the presence of an ESG governance body. However, as explained before, this finding may be biased by the fact that if the sustainability committee is of recent creation, its effects may not be evident yet.

	GRI 207: Tax 2019 adoption	**ESG reputational risk (measured through the ESG Controversies Score)**
ESG Controversies Score	Negative relationship	
Business Ethics Controversies	Not significant negative relationship	Not significant negative relationship
Tax Frauds Controversies	Not significant negative relationship	Not significant negative relationship
Assurance	Not significant results	Not significant results
Governance Pillar Score	Positive relationship	Not significant results
Board of Directors size	Positive relationship	Negative relationship
ESG Committee	Positive relationship	Not significant results

Figure 28: Summary table on findings

Thus, the results of our research do not provide significant explanations on the relationship nature between the adoption of the GRI tax standard and the real motivations guiding corporations in complying with it, since there are some limitations and biases that have to be taken into consideration when assessing the results. The first bias of this research is the fact that only six business and economic sectors have been taken in the sample construction. Additionally, always in the sample construction, only the 250 biggest companies in terms of revenues were considered, leaving aside other smaller businesses which maybe disclose more on tax behaviors and strategies. This may be a significant bias since, as cited in the paragraph 3.4 Reputation and Corporate Sustainability, better reputed and large corporations tend to disclose less, in order to reduce reputational risk. Thus, the sample may not be representative of all the entities operating in the global business environment and the fact that according to our criteria only 60 organizations were eligible, there could be the "small sample bias", which may distort results.

This is why this exploratory study can be considered as a starting point and further research is needed to understand in a better and deeper way the various aspects of this specific research question. More governance and controversies variables could be analyzed, and the dimension of the sample could be increased by investigating more organizations' behaviors and for a longer period of time.

CONCLUSIONS

In this thesis has been explored the argument of transparency in tax information disclosure by business entities. First of all, it was initially tried to analyze the increasingly need in our society for further reporting requirements asked by stakeholders not only relating to financial information, starting from assessment tools like the Balanced Scorecard and the Triple Bottom Line approach, moving to the most recent corporate reporting tool which is the Integrated Report. All these developments are the direct consequence of the social responsibility and Corporate Sustainability trends which involved corporations in the last decade due to ESG scandals which raised the public concern on sustainability matters. Then, the focus of this thesis was direct towards the "social" part of the sustainability concept, by introducing the problem of fair share tax contributions by organizations around the world. As reported in Chapter 2, in order to achieve a sustainable development, global actors have to behave in a manner which leads to the economic growth without compromising and depleting natural resources and by redistributing resources and wealth in the communities where they operate. This can be achieved through fair corporate tax payments in countries where those business organizations or multinational enterprises carry their activities. However, the adoption of tax aggressive behaviors prevents the accomplishment of this social objective – also supported by the United Nations Sustainable Goals, in particular the number one ("No poverty"), and number 10 ("Reduced inequalities") – due to the fact that businesses, for their economic nature, have an overriding goal which is in some way in contrast with fair tax contributions: maximizing profits and shareholders' returns. Despite this, national, supranational and other organizations are trying to change this distortive direction and are starting implementing tax transparency initiatives, which have at the base the aim of reducing tax avoidance in order to collect tax revenues (which has been eroded by the Covid-19 pandemic), which will be used for pubic needs, and also the aim of decreasing information asymmetries between firms and third interest parties.

Among those initiatives, there is a public and voluntary one which is the focus of this thesis: the Global Reporting Initiative 207: Tax standard. It is the first global reporting guideline for tax disclosure and provides instructions to organizations which decide to communicate information about their tax affairs publicly. To highlight is the fact that this standard does not require only the tax strategy adopted by companies (qualitative disclosure), but also suggests the county-by-country reporting mechanism which involves the outlining of tax contributions and business activities magnitude details for each jurisdiction and country in which the company carries its operations (quantitative disclosure). However, this type of disclosure requires additional costs for gathering the needed data and information, which not always exceed the potential benefits of additional sustainability-related transparency (that usually are linked to higher legitimation from the public, enhanced reputation for behaving ethically and gaining trust from stakeholders). This is the starting point of the research question of this thesis: "Is the adoption of the GRI 207: Tax 2019 a mean to protect corporate reputation and to avoid scandals that may arise from low transparency tax behaviors?". Thus, the second part of this thesis is focused on the positive relationship between good corporate reputation and broader sustainability disclosure. Corporate reputation is seen as an intangible asset capable of generating future economic and financial benefits, and for this reason it has to be managed in order to be preserved from possible risks that may arise. Yet, corporate reputation is difficult and challenging to measure due to its intangible nature, and due to the fact that it changes over time and across social contexts, since it is the result of human beings' perceptions and beliefs. This is why for the comparative analysis conducted on a sample of 60 companies of the Fortune Global 500 list, it has been used a proxy measure which may indicate the level of corporate reputation of a firm: the ESG Controversies Score. The assumption is that if the number of sustainability related scandals is high, the reputational threats for a company are high too. This is why sustainable behaviors are associated with ethical conducts which if not respected, may lead to a negative change in perceptions of stakeholders, that are everyday more concerned about ESG issues.

So, after having chosen the variables most significant for the research, a comparative study has been conducted. First level analysis showed that on a sample of 60 companies, just the 33% of them complied with the GRI global tax reporting guideline, and the average level of commitment to tax disclosure of these 20 organizations is equal to the 71% (with just 8 corporations at 100% level of compliance). Further research showed a negative relationship between the number of ESG controversies and the adoption of the GRI 207: Tax 2019 standard; a not significant association between assurance engagements, the number of sustainability scandals and the adoption of the GRI 207; a positive relation between the adoption of the GRI 207 and the size of the Board of Directors, and a negative association between the Board size and the number of sustainability related scandals; a positive relation between the adoption of the GRI 207 and the presence of an ESG committee, and a not significant link between corporate reputation related to sustainability matters and the presence of a CSR body; a positive association between the adoption of the GRI 207 and good governance, and a not significant link between corporate reputation risk and good governance level; and finally a not a significant negative relationship among the number of Business Ethics controversies and the adoption of the GRI 207, and among Tax Fraud controversies and the compliance with the tax standard.

Recalling what written in the last paragraph of Chapter 4, some limitations may have influenced the findings of this research and also a broader range of variables and of companies could have been used to assess the possible relationship between the adoption of tax transparency practices and the level of reputational risk of organizations. For this reason, this exploratory study can be considered as a starting point for future research in order to gain knowledge on the real motivations which guide companies in disclosing private data whose benefits accrue mainly to stakeholders and governments. It can also be a starting point for public organizations in order to comprehend if the level of compliance with voluntary tax transparency programs is satisfactory or if “hard” measures have to be implemented in order to broad and expand the corporate tax disclosure level.

APPENDIX

APPENDIX 1 – CHOSEN ECONOMIC SECTORS' COMPANIES ADOPTING THE GLOBAL REPORTING INTIATIVE FRAMEWORK IN THE 2021 SUSTAINABILITY REPORT

COMPANY	ADOPTION OF GRI IN THE 2021 SUSTAINABILITY REPORT	REPORTING PERIOD	TAX DISCLOSURE IN THE 2021 SUSTAINABILITY REPORT	REFERENCE TO GRI 207 IN THE 2021 SUSTAINABILITY REPORT
Walmart	GRI referenced claim	01/02/2020 - 31/01/2021	YES	YES
CVS Health	GRI core option	01/01/2020 - 31/12/2020	NO	NO
AmerisourceBergen	GRI core option	01/10/2019 - 30/09/2020	YES	YES
Industrial & Commercial Bank of China	Citing GRI	01/01/2020 - 31/12/2020	NO	NO
AT&T	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Cigna	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Agricoltural Bank of China	Citing GRI	01/01/2020 - 31/12/2020	NO	NO
Cardinal Health	GRI core option	01/07/2019 - 30/06/2020	NO	NO
Trafigura Group	GRI core option	01/10/2019 - 30/09/2020	YES	YES
Walgreens Boots Alliance	GRI core option	1/09/2019 - 31/08/2020	NO	NO
EXOR Group	GRI core option	01/01/2020 - 31/12/2020	YES	YES
Allianz	GRI core option	01/01/2020 - 31/12/2020	YES	YES
Bank of China	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Kroger	GRI referenced claim	03/02/2020 - 01/02/2021	NO	NO
Home Depot	GRI referenced claim	03/02/2020 - 31/01/2021	YES	YES
JPMorgan Chase	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Huawei Investment & Holding	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Verizon Communications	GRI core option	01/01/2020 - 31/12/2020	YES	NO

Anthem	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Mitsubishi	Citing GRI	01/01/2020 - 31/12/2020	YES	YES
Deutsche Telekom	GRI core option	01/01/2020 - 31/12/2020	NO	NO
China Mobile Communications	GRI core option	01/01/2020 - 31/12/2020	YES	NO
JD.com	Option not specified	01/01/2020 - 31/12/2020	NO	NO
Itochu	GRI core option	01/04/2020 - 31/03/2021	YES	NO
Assicurazioni Generali	GRI core option	01/01/2020 - 31/12/2020	YES	NO
Bank of America	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Target	GRI referenced claim	02/02/2020 - 30/01/2021	NO	NO
Lowe's	GRI referenced claim	01/01/2020 - 31/12/2020	NO	NO
Citigroup	GRI core option	01/01/2020 - 31/12/2020	YES	NO
Royal Ahold Delhaize	GRI core option	01/01/2020 - 31/12/2020	YES	NO
United Parcel Service	GRI comprehensive option	01/01/2020 - 31/12/2020	NO	NO
Carrefour	GRI core option	01/01/2020 - 31/12/2020	YES	YES
Wells Fargo	GRI core option	Ended 31/03/2021	YES	YES
Humana	GRI core option	01/01/2020 - 31/12/2020	NO	NO
COFCO	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Deutsche Post DHL Group	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Mitsui	GRI core option	01/04/2020 - 31/03/2021	YES	YES
Munich Re Group	GRI core option	01/01/2020 - 31/03/2022	YES	YES
Dai-ichi Life Holdings	GRI referenced claim	01/04/2019 - 31/03/2020	NO	NO
Banco Santander	GRI comprehensive option	01/01/2020 - 31/12/2020	YES	YES
International Business Machines	Option not specified	01/01/2020 - 31/12/2020	YES	YES
U.S. Postal Service	GRI core option	01/10/2019 - 30/09/2020	NO	NO
FedEx	GRI referenced claim	01/06/2019 - 31/05/2020	NO	NO

MetLife	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Walt Disney	Option not specified	29/09/2019 - 03/10/2020	YES	YES
Xiamen C&D	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Legal & General Group	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Brookfield Asset Management	GRI core option	01/01/2020 - 31/12/2020	NO	NO
China Pacific Insurance (Group)	GRI core option	01/01/2020 - 31/12/2020	NO	NO
China Merchants Bank	GRI core option	01/01/2020 - 31/12/2020	YES	YES
Toyota Tsusho	Option not specified	01/04/2019 - 31/03/2020	YES	NO
Zurich Insurance Group	GRI referenced claim	01/01/2020 - 31/12/2020	YES	YES
Manulife Financial	GRI core option	01/01/2020 - 31/12/2020	YES	YES
Prudential Financial	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Mitsubishi UFJ Financial Group	Citing GRI	01/04/2020 - 31/03/2021	NO	NO
Seven & I Holdings	Option not specified	01/03/2019 - 29/02/2020	YES	NO
Alimentation Couche-Tard	Option not specified	27/04/2020 - 25/04/2020	NO	NO
China Everbright Group	GRI core option	01/01/2020 - 31/12/2020	NO	NO
Industrial Bank	Option not specified	01/01/2020 - 31/12/2020	NO	NO
Sysco	GRI core option	Ended 31/07/2021	NO	NO
State Bank of India	GRI core option	01/04/2020 - 31/03/2021	NO	NO
Tokio Marine Holdings	GRI core option	01/04/2020 - 31/03/2021	YES	NO
Vodafone Group	GRI core option	01/04/2020 - 31/03/2021	YES	NO
AIA Group	Option not specified	01/01/2020 - 31/12/2020	NO	NO
Vinci	Option not specified	01/01/2020 - 31/12/2020	YES	YES
KDDI	GRI referenced claim	01/04/2020 - 31/03/2021	YES	NO
Cisco Systems	GRI core option	01/08/2019 - 31/07/2020	NO	NO
Telefónica	GRI comprehensive option	01/01/2020 - 31/12/2020	YES	YES

Power Corp. of Canada	Option not specified	01/01/2019 - 31/08/2020	NO	NO
América Móvil	GRI core option	01/01/2020 - 31/12/2020	YES	NO
Best Buy	GRI core option	01/02/2020 - 30/01/2021	NO	NO
Talanx	GRI core option	01/01/2020 - 31/12/2020	YES	YES
MS&AD Insurance Group Holdings	Option not specified	01/04/2020 - 31/03/2020	YES	NO
Royal Bank of Canada	Option not specified	01/11/2019 - 31/20/2020	YES	NO

APPENDIX 2: SUSTAINABILITY VARIABLES DATABASE

COMPANY	ESG CONTROVERSIES SCORE (2020)	BUSINESS ETHICS CONTROVERSIES (2021)	TAX FRAUD CONTROVERSIES (2021)	CSR SUSTAINABILITY EXTERNAL AUDIT (2020)	GOVERNANCE PILLAR SCORE (2020)
Walmart	1,28	0	2	N	79,9
CVS Health	8,7	0	0	N	82,07
Amerisource Bergen	2,63	0	0	Y	86,17
Industrial & Commercial Bank of China	90,09	1	1	Y	71,75
AT&T	7,69	1	0	Y	23,29
Cigna	60,87	0	0	Y	58,01
Agricoltural Bank of China	100	0	0	Y	72,44
Cardinal Health	6,41	0	0	Y	86,33
Trafigura Group	N/A	N/A	N/A	N/A	N/A
Walgreens Boots Alliance	20,51	0	0	Y	94,01
EXOR Group	N/A	0	0	N/A	N/A
Allianz	13,73	0	0	Y	95,82
Bank of China	69,4	0	0	Y	50,22
Kroger	16,67	0	0	N	52,16
Home Depot	21,21	0	0	N/A	65,39
JPMorgan Chase	14,66	1	1	N/A	82,11
Huawei Investment & Holding	N/A	N/A	N/A	N/A	N/A
Anthem	60,87	0	0	Y	94,01
Mitsubishi	58,33	0	0	Y	78,46
Deutsche Telekom	93,27	0	0	Y	78,37
JD.com	42,11	0	0	Y	69,14
Bank of America	12,07	0	0	Y	74,68
Target	7,89	0	0	Y	58,92
Lowe's	100	0	0	N/A	50,11

United Parcel Service	100	0	0	Y	72,36
Carrefour	20,51	0	0	Y	43,98
Wells Fargo	14,66	0	0	Y	48,88
Humana	N/A	0	0	N/A	N/A
COFCO	N/A	N/A	N/A	N/A	N/A
Deutsche Post DHL Group	100	0	0	Y	73
Mitsui	58,33	0	0	Y	51,45
Munich Re Group	100	0	0	Y	83,51
Dai-ichi Life Holdings	100	0	0	Y	67,23
Banco Santander	15,95	0	0	Y	88,4
International Business Machines	100	0	0	N/A	51,94
U.S. Postal Service	N/A	N/A	N/A	N/A	N/A
FedEx	8,33	0	0	Y	81,36
MetLife	100	0	0	Y	43,96
Walt Disney	7,58	0	0	N/A	58,66
Xiamen C&D	100	0	0	N/A	34,54
Legal & General Group	100	0	0	N	93,76
Brookfield Asset Management	100	0	0	N	89,19
China Pacific Insurance (Group)	100	0	0	N/A	91,19
China Merchants Bank	N/A	N/A	N/A	N/A	N/A
Zurich Insurance Group	13,73	0	0	Y	85,25
Manulife Financial	100	0	0	Y	65,16
Prudential Financial	100	0	0	Y	67,16
Mitsubishi UFJ Financial Group	12,07	0	0	Y	84,38

Alimentation Couche-Tard	100	0	0	N	33,42
China Everbright Group	N/A	N/A	N/A	N/A	N/A
Industrial Bank	100	0	0	Y	24,08
Sysco	9,48	3	0	N	14,83
State Bank of India	67,95	0	0	Y	46,63
AIA Group	100	0	0	Y	95,89
Vinci	100	0	0	Y	85,91
Cisco Systems	21,88	0	0	Y	95,1
Telefónica	27,88	0	0	Y	60,98
Power Corp. of Canada	100	0	0	Y	26,67
Best Buy	100	0	0	Y	60,97
Talanx	100	0	0	N	55,14

APPENDIX 3: CORPORATE GOVERNANCE VARIABLES DATABASE

COMPANY	BOARD OF DIRECTORS SIZE	PRESENCE OF AN ESG COMMITTEE
Walmart	13	1 (included in the Governance and Nominating Committee)
CVS Health	14	1 (included in the Nomination and Governance Committee)
AmerisourceBergen	11	1
Industrial & Commercial Bank of China	22	1
AT&T	14	1 (included in the Public Policy and Corporate Reputation Committee)
Cigna	15	1 (included in the Corporate Governance Committee)
Agricoltural Bank of China	28	0
Cardinal Health	12	1 (included in the Nominating and Governance Committee)
Trafigura Group	7	1
Walgreens Boots Alliance	12	1
EXOR Group	9	1
Allianz	6	1
Bank of China	21	1
Kroger	12	1 (included in the Public Responsibilities Committee)
Home Depot	15	0
JPMorgan Chase	14	0 (but each of the Board's standing committees oversees a range of matters pertaining to ESG topics)
Huawei Investment & Holding	17	1
Anthem	10	1 (included in the Governance Committee)
Mitsubishi	15	1
Deutsche Telekom	3	0
JD.com	9	1 (included in the ESG Working Expert Group)
Bank of America	23	1
Target	14	1 (included in the Governance Committee)
Lowe's	14	1
United Parcel Service	15	0

Carrefour	18	1
Wells Fargo	14	1
Humana	14	0
COFCO	5	0
Deutsche Post DHL Group	1	0
Mitsui	17	1
Munich Re Group	8	1
Dai-ichi Life Holdings	16	1
Banco Santander	17	1
International Business Machines	15	1 (included in the Directors and Corporate Governance)
U.S. Postal Service	15	0
FedEx	12	1 (included in the Nominating & Governance Committee)
MetLife	13	1 (included in the Governance and Corporate Responsibility Committee)
Walt Disney	13	1 (included in the Governance and Nominating Committee)
Xiamen C&D	8	0
Legal & General Group	10	1 (included in the Nominations and Corporate Governance Committee and in the Environment Committee)
Brookfield Asset Management	29	1
China Pacific Insurance (Group)	13	1
China Merchants Bank	19	0
Zurich Insurance Group	14	1
Manulife Financial	14	1 (included in the Corporate Governance and Nominating Committee)
Prudential Financial	13	1 (included in the Corporate Governance and Business Ethics Committee)
Mitsubishi UFJ Financial Group	22	1
Alimentation Couche-Tard	17	1 (included in the Human Resources and Governance Committee)
China Everbright Group	13	1
Industrial Bank	17	0
Sysco	10	1
State Bank of India	30	1
AIA Group	11	1
Vinci	20	1

Cisco Systems	12	1 (included in the Nomination and Governance Committee)
Telefónica	22	1
Power Corp. of Canada	26	1 (included in the Governance and Nominating Committee)
Best Buy	11	1 (included in the Nominating, Corporate Governance and Public Policy Committee)
Talanx	8	1 (included in the Responsible Investment Committee)

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SUSTAINABILITY REPORTS

COMPANY	2021 SUSTAINABILITY REPORT LINK
Walmart	https://corporate.walmart.com/esgreport/reporting-data/gri
CVS Health	https://cvshealth.com/social-responsibility/corporate-social-responsibility/annual-report
AmerisourceBergen	https://sustainability.amerisourcebergen.com/reports
Industrial & Commercial Bank of China	http://v.icbc.com.cn/userfiles/Resources/ICBCLTD/download/2021/2020shzrEN202103.pdf
AT&T	https://about.att.com/csr/home/reporting/indexes/gri.html
Cigna	https://www.cigna.com/about-us/corporate-responsibility/report/
Agricultural Bank of China	http://www.abchina.com/en/AboutUs/csr-report/
Cardinal Health	https://www.cardinalhealth.com/content/dam/corp/web/documents/Report/cardinal-health-fy20-corporate-citizenship-report.pdf
Trafigura Group	https://www.trafigura.com/responsibility/responsibility-performance/2020-responsibility-report/
Walgreens Boots Alliance	https://www.boots-uk.com/media/5118/walgreens-boots-alliance-2020-corporate-responsibility-report.pdf
EXOR Group	https://exor.com/sites/default/files/2021/document-documents/Exor%202020%20Sustainability%20Report%20extract_0.pdf
Allianz	https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/sustainability/documents/Allianz_Group_Sustainability_Report_2020-web.pdf
Bank of China	https://www.bochk.com/dam/bochk/desktop/top/aboutus/esg/report/SustainabilityReport2020_en.pdf
Kroger	https://www.thekrogerco.com/wp-content/uploads/2021/07/Kroger-2021-ESG-Report.pdf
Home Depot	https://corporate.homedepot.com/sites/default/files/THD_2021ESGReport_singlepages_1.pdf
JPMorgan Chase	https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/jpmc-esg-report-2020.pdf
Huawei Investment & Holding	https://www-file.huawei.com/-/media/corp2020/pdf/sustainability/sustainability-report-2020-en.pdf
Verizon Communications	https://www.verizon.com/about/sites/default/files/esg-report/2020/Verizon_2020_ESG_Report.pdf
Anthem	https://www.anthemcorporateresponsibility.com/gri-index
Mitsubishi	https://mitsubishicorp.disclosure.site/pdf/2020en.pdf

Deutsche Telekom	https://report.telekom.com/annual-report-2020/_assets/downloads/entire-dtag-ar20.pdf
China Mobile Communications	https://www.chinamobileltd.com/en/ir/reports/ar2020/sd2020.pdf
JD.com	https://ir.jd.com/index.php/system/files-encrypted/nasdaq_kms/assets/2021/04/19/2-46-41/2020%20JD.com%20Environmental%20Social%20and%20Governance%20Report.pdf
Itochu	https://www.itochu.co.jp/en/csr/report/index.html
Assicurazioni Generali	https://www.generali.com/info/download-center/sustainability/bilanci
Bank of America	https://about.bankofamerica.com/en/making-an-impact/esg-reports
Target	https://corporate.target.com/_media/TargetCorp/Sustainability-ESG/PDF/2021_Target_Corporate-Responsibility-Report.pdf
Lowe's	https://corporate.lowes.com/sites/lowes-corp/files/CSR-reports/Lowes_2020CSR__FINAL_ADA.pdf
Citigroup	https://www.citigroup.com/citi/about/esg/download/2020/Global-ESG-Report-2020.pdf?ieNocache=674
Royal Ahold Delhaize	https://media.aholddelhaize.com/media/emmkj0we/annual_report_2020_full_links-1.pdf?t=637526943268000000
United Parcel Service	https://about.ups.com/content/dam/upsstories/assets/reporting/sustainability-2021/2020_UPS_GRI_Content_Index_081921v2.pdf
Carrefour	https://www.carrefour.com/en/csr
Wells Fargo	https://www08.wellsfargomedia.com/assets/pdf/about/corporate-responsibility/environmental-social-governance-report.pdf
Humana	https://www.humanagroup.com/contentassets/d1d34819dd2b4d1593d09d9b252ea68b/1396178.pdf
COFCO	https://www.cofcointernational.com/media/1927/cil_sr_2020_digital.pdf
Deutsche Post DHL Group	https://www.dpdhl.com/en/investors/esg.html
Mitsui	https://www.mitsui.com/jp/en/sustainability/sustainabilityreport/2021/pdf/en_sustainability_2021.pdf
Munich Re Group	https://www.munichre.com/content/dam/munichre/contentlounge/website-pieces/documents/CR-Report-2020.pdf/_jcr_content/renditions/original./CR-Report-2020.pdf
Dai-ichi Life Holdings	https://www.dai-ichi-life-hd.com/en/sustainability/library/report/2020/pdf/index_001.pdf
Banco Santander	https://www.santander.com/content/dam/santander-com/en/documentos/informe-anual/2020/ia-2020-annual-report-en.pdf#page=14
International Business Machines	https://www.ibm.org/responsibility/reports-and-policies

U.S. Postal Service	https://about.usps.com/what/corporate-social-responsibility/sustainability/report/2021/usps-annual-sustainability-report.pdf
FedEx	https://www.fedex.com/content/dam/fedex/us-united-states/sustainability/gcrs/FedEx_2021_ESG_Report.pdf
MetLife	https://sustainabilityreport.metlife.com/content/dam/metlifecom/us/sustainability/pdf/report/2020/2020-sustainability-report.pdf
Walt Disney	https://thewaltdisneycompany.com/app/uploads/2021/02/2020-CSR-Report.pdf
Xiamen C&D	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/new/2021-04-20/600153_20210420_10.pdf
Legal & General Group	https://group.legalandgeneral.com/en/sustainability/sustainability-reporting-centre?page=1&year=0&csrReportTypeId=0
Brookfield Asset Management	https://www.brookfield.com/sites/default/files/2021-06/2020_ESG_Report.pdf
China Pacific Insurance (Group)	https://www.cpic.com.cn/gdr/upload/resources/file/2021/05/31/56735.pdf
China Merchants Bank	http://file.cmbimg.com/cmbir/202105/af4c85d5-b889-4e0e-8935-7c3df6cdb9bc.pdf
Toyota Tsusho	https://www.toyota-tsusho.com/english/csr/gri.html
Zurich Insurance Group	https://www.zurich.com/en/sustainability
Manulife Financial	https://www.manulife.com/content/dam/corporate/global/en/documents/pas/MFC_SR_PAS_2020.pdf
Prudential Financial	https://s1.q4cdn.com/379746662/files/doc_downloads/2021/07/PRU_ESG20_v9abc.pdf
Mitsubishi UFJ Financial Group	https://www.mufg.jp/english/csr/report/index.html
Seven & I Holdings	https://www.7andi.com/en/sustainability/research.html
Alimentation Couche-Tard	https://corpo.couche-tard.com/wp-content/uploads/2021/06/sustainability-report-2021-1.pdf
China Everbright Group	https://www.everbright.com/sites/default/files/csr_report/ew0165_ESG_0.pdf
Industrial Bank	https://download.cib.com.cn/netbank/download/cn/Sustainable_Finance/report_kcxfz_2020en.pdf
Sysco	https://investors.sysco.com/~/media/Files/S/Sysco-IR/documents/sustainability-reports/Sysco%202021%20Corporate%20Social%20Responsibility%20Report.pdf

State Bank of India	https://sbi.co.in/documents/17826/24401/140621-Sustainability+Report%28SR%29+year+2020-21.pdf/ba271367-9542-e96a-0589-2968954b2e17?t=1623659643326
Tokio Marine Holdings	https://www.tokiomarinehd.com/en/sustainability/pdf/sustainability_web_2021.pdf
Vodafone Group	https://www.vodafone.com/about-vodafone/reporting-centre/sustainability-reporting#ESG-2020; https://www.vodafone.com/about-vodafone/reporting-centre/tax-and-economic-contribution; https://investors.vodafone.com/sites/vodafone-ir/files/2021-05/vodafone-annual-report-2021.pdf
AIA Group	https://www.aia.com/content/dam/group/en/esg/AIA_ESG_En.pdf
Vinci	https://www.vinci.com/publi/vinci/vinci-2020-universal-registration-document.pdf
KDDI	https://www.kddi.com/extlib/files/english/corporate/csr/csr_report/2021/pdf/report2021_en.pdf
Cisco Systems	https://www.cisco.com/c/dam/m/en_us/about/csr/esg-hub/_pdf/csr-report-2020.pdf
Telefónica	https://www.telefonica.com/documents/153952/13347920/2020-Telefonica-Consolidated-Management-Report.pdf/8e690923-f95f-4247-ed34-91c0ba0ff510; https://www.telefonica.com/documents/153952/13347920/GRI-Standards-2020.pdf/79fef081-9037-2f8e-b821-706474797ede
Power Corp. of Canada	https://www.powercorporationcsr.com/media/uploads/reports/pcc-2019-2020-csr-microsite-web-final.pdf
América Móvil	https://s22.q4cdn.com/604986553/files/doc_downloads/2021/05/2020-Sustainability-Report.pdf
Best Buy	https://corporate.bestbuy.com/wp-content/uploads/2021/07/ESG_Report_FY21_final.pdf
Talanx	https://www.talanx.com/media/Files/talanx-gruppe/nachhaltigkeitsberichte/2020_talanx_sustainability_report_.pdf
MS&AD Insurance Group Holdings	https://www.ms-ad-hd.com/en/csr/report/main/05/teaserItems1/0/linkList/0/link/sus_report20211222.pdf
Royal Bank of Canada	https://www.rbc.com/community-social-impact/_assets-custom/pdf/2020-ESG-Report.PDF