8-14-2021

Effects of management and media disclosures of corporate tax evasion on investor judgments

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EFFECTS OF MANAGEMENT AND MEDIA DISCLOSURES OF CORPORATE TAX EVASION ON INVESTOR JUDGMENTS

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LINGNAN UNIVERSITY

2021

EFFECTS OF MANAGEMENT AND MEDIA DISCLOSURES OF CORPORATE TAX EVASION ON INVESTOR JUDGMENTS

by
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A thesis
submitted in partial fulfillment
of the requirements for the Degree of
Master of Philosophy in Business

Lingnan University

2021

ABSTRACT

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Tax Evasion on Investor Judgments

by

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This study examines investor reactions to disclosures of corporate tax evasion by company management and the media. We were particularly interested in the issue of whether investors value corporate tax compliance from a moral perspective. We conducted an experiment in which we manipulate management disclosure strategies (no disclosure, symbolic disclosure, substantive disclosure) and the presence/absence of media disclosures in a 3 x 2 between-subjects design. Participants provided judgments of a hypothetical company's short-term and long-term financial prospects and their willingness to maintain their investment in the company.

Media disclosure of tax evasion had a significant effect on all judgments. In addition, for all judgments there was a significant interactive effect of management disclosure strategy and media disclosure. This interaction was driven by the particularly strong negative effects of media disclosure when management made no disclosure of the evasion (the "caught off guard" effect). In contrast, analysis of simple effects indicated that if management proactively discloses instances of tax evasion, subsequent disclosure by the media has no significant effect on investor judgments. We also document that, relative to a control group, management disclosure of facts regarding a tax evasion event (in the absence of media disclosure) significantly reduces investor assessments of the short-term prospects of the company and their willingness to hold the company's stock. However, management disclosure of facts regarding tax evasion had no significant impact on investor assessments of the company's long-term prospects. Although recent research on environmental, social and governance disclosures has documented that the specific form of management legitimation strategies (symbolic vs. substantive) has significant impacts on investor judgments, we found no evidence of such effects in our study. Supplemental analysis revealed that the perceived morality of management mediated the effects of media disclosures on investor judgments.

Based on the findings we draw several conclusions. Though corporate management may be tempted to omit disclosure of tax evasion events from the financial statements, they are likely to pay a high price if the evasion is later reported by independent third parties. This appears to reflect investor reactions to management breaches of their expectations regarding moral behavior. In contrast, proactive management disclosure of the facts surrounding tax evasion events attenuates the negative effects of future media disclosures. Management disclosure of facts regarding tax evasion appears to be viewed primarily as a short-term rather than a long-term threat to a company's prospects. Given knowledge that tax evasion has occurred, investors place little credence in management attempts to legitimize the evasion, even when such legitimation efforts describe detailed and concrete remediation strategies. Finally, investor perceptions of the morality of company management (including management commitment to ethics/integrity and corporate social responsibility) play a key role in their reactions to corporate tax evasion.

Keywords: tax evasion, media disclosure, management disclosure, legitimation strategies, investor judgments

DECLARATION

I declare that this is an original work based primarily on my own research, and I warrant that all citations of previous research, published or unpublished, have been duly acknowledged.

SIGNED

(CHUA Ming Wei Gabriel)
Date: 27 August 2021

CERTIFICATE OF APPROVAL OF THESIS

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ACKNOWLEDGEMENTS

Throughout the writing of my dissertation, I have received a great deal of support and assistance.

I would like to express my sincere gratitude to my advisor Professor William Shafer for his patience, guidance, and continuous support throughout my MPhil study. Under Professor Shafer's leadership, I was able to complete my MPhil dissertation and study. I learned a great deal from him, and I am thankful that I had the opportunity to work with him. Furthermore, he has inspired me to continue my journey for PhD studies.

In addition, I would like to thank the rest of my thesis committee for their valuable and inspirational advice. Also, I would like to thank Professor Zhang Yue for her feedback and reviews on my dissertation. I would also like to thank Professor Bonnie Cheng and Professor Eric Ngai for their valuable guidance throughout my study.

I would also like to thank my classmates for their support. Besides, I would like to thank my mum and dad for supporting me and always being there for me. Last but not least, I could not have completed this dissertation without the support of my friend, Aurgus Chang, who provided stimulating discussions as well as happy distractions to rest my mind outside of my research.

1. INTRODUCTION

Tax evasion is a long-standing global phenomenon that impacts multiple stakeholders and raises issues that have broad social, political, and economic implications (Andreoni, Erard & Feinstein, 1998; Sikka, 2010, 2015).[1] In recent years, companies such as Google, Starbucks, Ikea and Amazon have been charged with adopting overly aggressive tax planning strategies (Hillenbrand, Brooks & Tovstiga, 2019; Yang & Metallo, 2018). Tax avoidance/evasion has also attracted a great deal of attention in the accounting, economics and business ethics literature in recent decades (Chen & Chu, 2005; Hanlon & Heitzman, 2010; Sikka, 2010, 2015; DeBacker, Heim & Tran, 2015; Crocker & Slemrod, 2005; Andreoni et. al., 1998; Davidson, Worrell & Lee, 1994; Lanis & Richardson, 2015; Dowling, 2014; Shafer & Simmons, 2008; Payne & Raiborn, 2018; Bird & Davis-Nozemack, 2018).

The widespread interest in tax avoidance/evasion may be attributed to its increasing prevalence as well as its potentially negative social and economic consequences (Hillenbrand et al., 2019; Yang & Metallo, 2018). The U.S. Treasury estimated the gross tax gap (underpayments) to be $441 billion per year from 2011-2013 (United States Treasury, 2019), and the tax gap has appeared on the U.S. Government Accountability Office's list of high-risk issues for several years (United States GAO, 2019). Despite such concerns, the U.S. Internal Revenue Service (IRS) remains grossly underfunded, and the tax gap for the coming decade is projected to be as high as $7.5 trillion (Huang, 2021). In an effort to curtail tax evasion, the Organisation for Economic Cooperation and Development (OECD) has initiated a Base Erosion and Profit Shifting (BEPS) action plan. The success of the plan, however, remains to be seen (Brooks, Godfrey, Hillenbrand & Money, 2016).[2]

Losses of tax revenue reduce the ability of nation-states to improve social conditions; thus, tax evasion may exacerbate social and economic injustice (Sikka, 2010, 2015; Durante, Putterman & Van der Weele, 2014; You & Khagram, 2005). Although the significance of tax avoidance/evasion and its negative social and economic consequences have been widely acknowledged and researched, relatively little is known about the effects of corporate tax evasion on investor judgments and decisions. But there is clearly reason for concern regarding this issue. The emergence of a tax avoidance "industry" aided and abetted by expert accountants and attorneys (Madison, 2018; Henry, 2015; Johnston, 2004; Sikka, 2010, 2015; Shafer & Simmons, 2008) suggests that many corporations are willing to play the "tax lottery", taking aggressive positions that may cross the line into illegal tax evasion. The apparent prevalence of such strategies implies that the perpetrators have little concern regarding the morality of tax evasion, and investors may also tacitly approve overly aggressive tax reporting. Indeed, questions have often been raised regarding the extent to which investors really care about corporate tax evasion (Blaufus, Möhlmann & Schwäbe, 2019; Brooks et. al., 2016; Reynolds, 2020).

The current study aims to gain insights into this issue by investigating investor reactions to revelations of corporate tax evasion. We adopt an experimental approach that examines the impact of management disclosure strategies and the presence/absence of media disclosures of tax evasion events. Management may adopt a strategy of nondisclosure in a company's financial statements in the hope that tax evasion can be effectively concealed. However, if investors are concerned about tax evasion from a moral perspective, they are likely to punish the company if the evasion is later disclosed by independent third parties. To avoid this possibility and attempt to preserve corporate legitimacy, management may elect to disclose the *facts* regarding tax evasion in the financial statements. Reimsbach & Hahn (2015) investigated the direct and interactive effects of management and third-party disclosures of negative events relating to environmental, social and governance (ESG) issues. However, prior studies have not addressed this issue in the specific context of corporate tax evasion.[3]

We also extend previous literature by investigating the effects of alternative legitimation strategies adopted by corporate managers in their disclosures of tax evasion. It has long been recognized that organizations may adopt legitimation strategies as impression management tools in an attempt to mitigate the impact of negative information on stakeholder perceptions (Gomulya & Mishina, 2017; Suchman, 1995). Recent studies in the ESG context recognize that legitimation strategies may be relatively symbolic or substantive in nature (Hahn & Lülfs, 2014). Hahn, Reimsbach, Kotzian, Feder & Weißenberger (2021) document that when companies disclose substantive remediation strategies relating to negative ESG events, this reduces the likelihood of divestment from the company.[4] But the effectiveness of legitimation strategies used in response to corporate tax avoidance/evasion appears to be an open question and consequently is addressed in the current study.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Effects of Media Disclosures of Tax Evasion

Scholars have recognized that independent third parties play a critical role in monitoring organizations' actions and uncovering corporate misconduct. Research has documented that independent third parties often serve as “watchdogs” to uncover negative information about organizations (Kourula & Laasonen, 2010), and media disclosures are often used to monitor organizations to ensure they act with good faith and accountability (Hahn, 2011; Haddock-Fraser, 2012).

Kinney (2000) argues that independent third-party sources enhance investor confidence in corporate disclosures, particularly if the third parties have a reputation for trustworthiness. Based on a literature review, Mercer (2004) identified third-party validation as one of the key factors that investors consider when assessing the credibility of management disclosures. Signaling theory also recognizes that signals provided by third parties should generally be more reliable because they are less susceptible to manipulation than self-reported signals (Gomulya & Mishina, 2017).

This discussion supports the intuitive proposition that investors will view media disclosures of antisocial or illegal corporate acts as relatively reliable. But obviously investors must value the signals provided by media disclosures if they are to influence their decisions. The empirical evidence on this issue is based primarily on correlational studies of stock price reactions to disclosures, and the results are somewhat mixed.

In early accounting studies, Foster (1979, 1987) found that companies’ stock prices fell shortly after Abraham Briloff published magazine articles revealing negative information regarding their accounting practices. These results are not surprising given that for decades Briloff was “by far the most prominent accounting critic” (Norris, 2013). In a study of over 500 reports of corporate illegalities published in the *Wall Street Journal*, Davidson et. al. (1994) found that for the sample as a whole the impact on stock prices was insignificant. However, when they categorized the reports by type of transgression, they found significant price declines for approximately half of the categories (e.g., bribery, tax evasion, theft of trade secrets, violations of government contracts). For the other categories, there were either no significant effects (e.g., accepting kickbacks, criminal fraud, securities law violations) or positive effects (price fixing). Even for the illegal acts that had significant negative impacts on stock prices, the effects were only documented for short time periods.

Many studies have investigated the impact of public disclosure of tax avoidance/evasion or "tax planning strategies" on companies' share prices or returns on investment. The results of these studies have been inconsistent, including findings of positive, negative and no effects (Blaufus et al., 2019). As noted by Blaufus et al. (2019), most of these studies failed to make a clear distinction between legal tax avoidance and illegal tax evasion. To provide more clarity on this issue, Blaufus et al. (2019) compared the effects of media disclosures of tax avoidance and tax evasion on stock returns for a sample of German companies. Based on a sample of 176 newspaper articles that reported corporate tax avoidance/evasion, they found that legal avoidance had no significant impact, while illegal evasion significantly reduced returns.[5]

Studies such as those of Davidson et al. (1994) and Blaufus et al. (2019) provide some support for the contention that media disclosures of corporate tax *evasion* negatively influence share prices and returns on investment. Thus, media reports of relatively clear cases of tax evasion should negatively influence investor assessments of a company's financial prospects and their willingness to maintain their investment in the company, as indicated in the following hypothesis.

> *Hypothesis 1: Media disclosure of corporate tax evasion will have a negative influence on investor evaluations of their future return on investment and their willingness to maintain their current level of investment in a company.*

2.2 Effects of Management Disclosure Strategies

The documentation of negative impacts of media disclosures of tax evasion on investor judgments (Hypothesis 1) will not shed light on the underlying *reasons* for investor reactions. For instance, even in cases of settled or adjudicated tax evasion, investors may view management's actions primarily through an economic rather than a moral lens. Indeed, many market-based studies of corporate tax avoidance/evasion appear to emphasize the primacy of economic considerations. These studies often assume investors will judge tax evasion primarily by weighing its perceived costs (e.g., fines and penalties) and benefits (lower tax payments) (Brooks et al., 2016). If moral implications are recognized, they are usually objectified as "reputational costs" and quantified using proxies such as lost sales (Blaufus et al., 2019). And as previously discussed, evidence of the prevalence of corporate tax evasion has led to suggestions that corporations and their tax advisors (accounting and law firms) often cooperate in complex schemes to evade taxes and view this process as little more than strategic planning designed to maximize corporate profits (Sikka, 2010, 2015). If such assertions are true, corporate tax evasion may have become normalized to some extent.

Aside from evidence of its prevalence, questions have been raised regarding the perceived morality of corporate tax avoidance/evasion due to uncertainty surrounding its definition and the degree of wrongdoing involved. The boundary between aggressive but legal tax avoidance vs. illegal tax evasion is often fluid, regularly contested and ultimately determined by regulatory authorities or courts (Shafer & Simmons, 2008). This reflects a process of coevolution between the tax laws in the U.S. and sophisticated tax avoidance strategies developed to test the limitations of those laws. This is hardly surprising given the pressure for profit maximization that many corporations face. But it clearly may create ambiguity regarding the extent of management culpability in many cases of aggressive corporate tax avoidance/evasion.

Doubts regarding the extent to which investors are concerned about corporate tax evasion have also been raised by the media. For instance, Reynolds (2020) recently argued that "Until investors stand up and start to hold multinational corporations to account, regular citizens will continue to see the Starbucks and Googles of the world avoiding paying taxes…If the world is to become a more equal place, investors holding corporations to account on tax is a critical place to start." Thus, there are numerous reasons to question whether investors will be particularly concerned with corporate tax evasion from a moral perspective.

On the other hand, it is apparent from moral and legal perspectives that tax evasion is a clear breach of corporate management's obligations to shareholders. Investors entrust their personal wealth with corporations, and they should expect the managers of those corporations to act in good faith and in accordance with their fiduciary responsibilities. Further, evidence clearly suggests that investors are quite sensitive to the issue of management integrity. For instance, Shafer (2004) found that investors react negatively to illegal corporate acts even if such acts have no effect on the numbers reported in a company's financial statements (such acts are viewed as material on *qualitative* rather than *quantitative* grounds). Shafer (2004) also documented that investors had particularly strong negative reactions to illegal acts that involved self-dealing (accepting kickbacks) on the part of corporate management.[6] Evidence of tax avoidance/evasion also raises obvious concerns regarding management character or integrity because corporate managers may increase their performance-based compensation by engaging in overly aggressive tax minimization strategies. Based on these considerations, we believe investors will value corporate tax compliance from a moral perspective.

The simultaneous examination of media disclosures and management disclosure strategies can provide insights regarding this issue. In the wake of settled tax evasion events, corporate managers will adopt a disclosure strategy for how to address the situation. For instance, management may choose to make no disclosure of the event at all, and hope that it is not subsequently disclosed by third parties.[7] Or they may disclose the event but attempt to legitimize it in a non-substantive way designed to minimize negative responses, essentially an attempt to rationalize the event without taking significant actions to minimize its recurrence. If they are genuinely concerned about the event, they may adopt concrete and substantive remediation strategies and proactively disclose these measures in the financial statements (cf. Hahn et al., 2021).

If management makes no disclosure of the tax evasion, the company may suffer particularly strong negative effects if the evasion is subsequently disclosed by independent third parties. This situation was referred to as the "caught off guard" effect by Reimsbach & Hahn (2015). In their experimental study of environmental, social and governance disclosures (excluding tax evasion), these authors found that if management failed to disclose negative events but they were later disclosed by nonprofit organizations, this had an especially strong negative impact on investors' estimates of the company's future stock price and their willingness to maintain their investment in the company.

Documentation of the caught off guard effect in the context of tax evasion would provide evidence that investors are concerned about evasion from a moral perspective. If a company's financial statements fail to disclose instances of settled tax evasion and the evasion is subsequently disclosed by the media, this sends highly credible signals that (1) the company engaged in illegal activities; and (2) company management was aware of these activities but chose not to disclose them.

If investors view this situation from a strategic economic perspective that ignores moral considerations, arguably neither of these signals should be particularly troubling. Investors who adopt a cavalier attitude toward aggressive tax evasion may feel that management was acting in their best interest by attempting to maximize profits and shareholder value and believe that media detection and disclosure was simply "bad luck". Such investors should view nondisclosure by the company simply as part of the strategic game being played to minimize possible repercussions of the evasion event. In this case, it does not appear likely that investors will punish the company to a significant extent for nondisclosure; thus, we would not expect to find significant interactive effects of management and media disclosure.

In contrast, if investors view tax compliance from a critical moral perspective, both signals sent by media disclosure only (tax evasion occurred, and management attempted to conceal it) should clearly be considered negative reflections on management character or integrity. The signal of nondisclosure by management should amplify the negative effects of the event itself by violating investors' expectations for fair and honest reporting and reducing their perceptions of management integrity and credibility (Connelly, Certo, Ireland & Reutzel, 2010; Gomulya & Mishina, 2017; Karpoff, Lee & Martin, 2008; Karpoff & Lott, 1993). Consequently, investors should feel that management's value system is incongruent with their own (Gomulya & Mishina, 2017; Devers, Dewett, Mishina & Belsito, 2009). Such consequences should decrease investor confidence in the future behavior and performance of the firm (Mishina, Block & Mannor, 2012; Mishina et al., 2017). Thus, investors who are genuinely concerned about the morality of corporate tax evasion should react quite harshly to revelations that a company settled a tax evasion case and management attempted to conceal the evasion. This suggests that media disclosure and management disclosure strategies will have significant interactive effects on investor judgments, as indicated in the following hypothesis.

> *Hypothesis 2: There will be a significant interaction between management disclosure strategies and the presence/absence of media disclosure of corporate tax evasion. Specifically, the presence of media disclosure will have a larger negative influence on investor evaluations of their future return on investment and their willingness to maintain their current level of investment in a company when management fails to make any disclosure of the facts surrounding the tax evasion event.*

We also investigate the effects of management disclosure of the basic facts regarding corporate tax evasion relative to a control group. As observed by Hahn et al. (2021), when management chooses to disclose facts regarding antisocial or illegal corporate activities, this poses a risk to the company's legitimacy. But they may be willing to take this risk to avoid the potentially greater implications of the caught off guard effect. When management discloses facts regarding a tax evasion event, this signals to stakeholders that: (1) the company engaged in illegal acts; and (2) management chose to disclose the illegal acts. The first signal should have the dominant effect because it is obviously credible, and it clearly raises concerns regarding management integrity.

If investors view tax avoidance/evasion as morally reprehensible, disclosure of facts regarding evasion events in the company's financial statements should violate their expectations for high integrity on the part of company management (Gomulya & Mishina, 2017; Devers et al., 2009). Signaling theory recognizes that significant violations of expectations make the future behavior and intent of the signaler less predictable and accordingly increase stakeholder apprehension (Mishina et al., 2012). This should reduce investor expectations regarding the prospects of the company and their willingness to hold their investment.

The second signal (management disclosure of the event) should not be viewed very positively by investors. It is likely that some investors (even nonprofessionals) will realize that disclosure of the facts regarding material illegal corporate activities is mandated by professional accounting standards. Thus, management disclosure of the facts surrounding tax evasion simply meets minimum professional and regulatory requirements and should not be viewed as a signal of high management integrity. Even if investors are not aware that such disclosures are mandatory, given knowledge that tax evasion has occurred it seems likely that they would question the underlying motivation for any voluntary disclosures and feel they may simply represent a form of "damage control" designed to manage public impressions. Accordingly, it seems unlikely that management's choice to disclose the facts regarding a tax evasion event in a company's financial statements will carry any significant positive connotations relative to a control group.[8] This reasoning is reflected in the following hypothesis.

> *Hypothesis 3: If management discloses facts regarding corporate tax evasion, this will negatively influence investor estimates of future returns on their investment and their willingness to maintain their current investment level in a company relative to a control group (no management disclosure, no media disclosure).*

2.3 Effects of Management Legitimation Strategies

Management scholars have long recognized the critical importance of organizational legitimacy. In their influential article, Dowling & Pfeffer (1975) note that without legitimacy organizations would be unable to exist. Organizational legitimacy theory is based on the idea that there is an implied contract that binds the organization and society (Chen & Roberts, 2010). This social contract is analogous to a license to operate, and if there are specific events that breach this contract, the organization's existence may be threatened (Hrasky, 2012). This may be the case when organizational actions are incongruent with society's expectations (Chan & Milne, 1999). For example, if an organization commits tax evasion, the legitimacy of the organization may be at risk if this incident is not considered appropriate in the eyes of society. Companies may adopt various legitimation strategies designed to preserve or restore their perceived legitimacy (Suchman, 1995).

According to Hahn et al. (2021), most previous studies of legitimation strategies have focused on the tactics adopted by organizations to *restore* organizational legitimacy. These studies have shown that organizations often employ such strategies in response to public disclosure of negative corporate incidents that have the potential to cause reputational damage (Cho, 2009; Deegan, 2002; Deegan & Rankin, 1996; Patten, 1992; Walden & Schwartz, 1997). Hahn et al. (2021) extend the organizational legitimacy literature by examining the effectiveness of proactive disclosures designed to *preserve* legitimacy before public disclosure occurs. In addition, while prior studies have adopted an *organizational* focus, Hahn et al. (2021) add an *investor* perspective to the organizational legitimacy literature, investigating investor responses to legitimation strategies relating to environmental, social and governance issues. In the current study we extend the work of Hahn et al. (2021) to the context of tax evasion. Previous studies have not investigated investor reactions to proactive disclosures designed to preserve organizational legitimacy in cases of corporate tax evasion.

Hahn & Lülfs (2014) documented two distinct classes of proactive legitimation strategies based on their review of company sustainability reports: symbolic and substantive.[9] Symbolic legitimation strategies involve management disclosures that are relatively superficial and evasive, designed to justify or rationalize negative incidents. Compared to disclosures of substantive remediation strategies, symbolic disclosures tend to be disingenuous and designed primarily to manage public impressions. Symbolic disclosures are not likely to be viewed as credible signals by investors; consequently, they should be unlikely to alleviate investor concerns regarding corporate tax evasion. This argument is supported by studies which document that symbolic disclosure strategies have a relatively low chance of restoring (Kim, Bach & Clelland, 2007; Marshall & Brown, 2003) or preserving (Hahn et al., 2021) organizational legitimacy.

In contrast, substantive legitimation strategies involve disclosures of purported commitments on the part of the organization to rectify their actions and reduce the likelihood of negative incidents recurring. Such actions should be costly, concrete and specific in nature (Cho, 2009; Cho et al., 2015). Disclosures of substantive remediation strategies represent an attempt to convince investors that management is genuinely committed to high standards of integrity. To the extent that such disclosures are viewed as credible signals, they should reduce investor concerns regarding the actions in question. Consistent with this assertion, (Hahn et al., 2021) found that disclosure of substantive remediation strategies for negative ESG events reduced the likelihood of divestment from a company.

However, we feel that the impact of symbolic vs substantive legitimation strategies is questionable in the case of settled tax evasion events. Both symbolic and substantive disclosures represent claims made by management to allay investor concerns, and in the case of substantive disclosures these claims obviously may be decoupled from actual internal changes. In any case, if management has disclosed the facts regarding the tax evasion event, it has been conceded that the company engaged in illegal activities. This should raise serious concerns regarding management integrity and credibility. As observed by Gomulya & Mishina (2017, 579), “when the credibility of the signaler is compromised, stakeholders may shift their relative reliance to signals that are less susceptible to errors and manipulations.” In the context of our study, the signals that are least susceptible to errors and manipulations are the media and management disclosures of the basic facts regarding tax evasion. Thus, it seems likely that investors will place their primary emphasis on the facts of the case and discount management claims beyond these facts. For this reason, we do not feel a compelling case can be made for the effects of the form of management “talk” regarding of tax evasion, and simply pose the following research question.

> *Research Question 1: If management’s proactive disclosure of corporate tax evasion is substantive (vs. symbolic) in nature, will this have a positive effect on investors’ evaluations of future returns on their investment and their willingness to maintain their current investment level in a company?*

3. RESEARCH METHOD

3.1 Experimental Design and Procedures

We conducted an experimental study of nonprofessional investors to test the hypotheses. Management disclosure strategies and media disclosures relating to a tax evasion event were manipulated in a 3 x 2 between-subjects experimental design (see Figure 1). We developed a case scenario that involved a dispute with the IRS that had been settled by the payment of back taxes and penalties. Because the primary focus of our study was on investor reactions to tax evasion, we felt it was critical to present a relatively clear case of evasion to minimize individual differences in interpretation of the extent of wrongdoing.

After providing informed consent and responding to demographic questions, all participants were presented with an investment case and informed that they currently owned shares in the company discussed therein, and that it was one of the most profitable investments in their stock portfolio (see Appendix A for the experimental case). They were then presented with basic background information on the company and a summary of audited financial information for the past two years. The case was prepared based on the actual financial statements of a publicly traded U.S. company, and was anonymized by changing the company name and adjusting the numbers by a uniform percentage.

[Figure 1 here]

Three alternative management disclosure strategies were tested: no disclosure, disclosure of facts combined with symbolic legitimation, and disclosure of facts combined with substantive legitimation.[10] Subjects in the no management disclosure condition simply received the basic background and financial information for the company. In the symbolic legitimation condition, a financial statement footnote was added that briefly described the facts relating to the tax evasion event,[11] followed by management discussion that was symbolic in nature. This symbolic legitimation employed three of the four strategies identified by Hahn & Lülfs (2014): (1) marginalization (stating that this was the first time the company had ever been required to pay additional taxes); (2) abstraction (stating that similar incidents occur regularly in business contexts); and (3) rationalization (stating that companies often take tax deductions they believe are legitimate but which are later disallowed by the tax authorities; thus, periodic adjustments of tax liabilities by the authorities are virtually inevitable). The symbolic legitimation discussion concluded by stating that the company was confident that its management acted in good faith and believed that the disallowed deductions were legitimate.[12]

In the substantive legitimation condition participants also received the financial information and footnote describing the facts regarding the tax evasion event, but in this case management's discussion of the evasion included a number of concrete action steps designed to prevent recurrence, including stating that (1) the company engaged an independent law firm to investigate the incident and provide a detailed report to its board of directors and audit committee; (2) as a result of this investigation, the former director of the company's tax department was replaced by a more highly qualified individual; (3) the independent law firm will be engaged on a continuing basis to review the company's tax returns before they are filed; and (4) the company's internal auditors, who report directly to the audit committee, will also take a more active role in monitoring the activities of the tax department. The effectiveness of the manipulation of symbolic vs. substantive manipulation was tested by asking participants to rate management's discussion of the tax evasion in the annual report on three dimensions (10-point Likert scales): rationalization vs. genuine concern; vague vs. concrete; and symbolic vs. substantive. An analysis of responses to these checks indicated highly significant differences for each of the items in the anticipated directions. Thus, the manipulation appeared to be effective.

The presence of media disclosure was manipulated by adding a separate section after the main body of the case which indicated that after the financial statements were issued the tax evasion was reported in the *Wall Street Journal*. This was followed by an illustration of the disclosure, which repeated the same basic facts regarding the tax evasion that were disclosed by the company in its financial statement footnotes. This manipulation was checked by asking if there was any indication in the case that disallowed tax deductions had been publicly reported by the news media. If participants answered this question incorrectly, the survey was terminated. Approximately ten percent of potential respondents failed this check and thus were excluded from the sample.

After the manipulation checks, participants provided several responses to the case. These included assessments of the short-term and long-term prospects for their return on investment from the company. Both these assessments were made on 10-point scales anchored on “negative returns” (1) and “positive returns” (10). To elicit investment decisions, respondents were asked to assume they were currently deciding whether to reallocate funds among the investments in their portfolios, and to decide what action to take regarding their investment in the company on a 10-point scale anchored on “significant decrease” (1) and “significant increase” (10). To provide a basis for supplemental analyses, participants’ perceptions of company management’s commitment to integrity, ethical values and corporate social responsibility were also assessed on 10-point scales where 10 indicated higher levels of commitment.

3.2 Sample

We conducted an online experimental survey of nonprofessional investors. The presence of nonprofessional investors in capital markets has become increasingly significant; hence their perceptions are of growing importance, yet they remain understudied (Cohen, Holder-Webb, Nath & Wood, 2011). We prepared the online version of the instrument on the Qualtrics platform and obtained the sample using Amazon Mechanical Turk (MTurk). Recruiting participants through MTurk has been common in recent business and accounting studies (e.g., Hux, 2021; Sheldon & Jenkins, 2020; Owens & Hawkins, 2019; Brink, Eaton, Grenier & Reffett, 2019). Each participant was randomly assigned to one of the six experimental groups.

We conducted an initial pre-test of the instrument in MTurk with a sample of 30. The results of this test indicated that several participants failed the manipulation check for the presence of media disclosure. Consequently, we modified the instrument to emphasize the presence of media disclosures more clearly. We then conducted a second pre-test and found that the failure rate for this manipulation was quite low and no other problems were noted. For both the second pre-test and the main study, we required that participants be "MTurk Masters", a designation reserved for those with an established record of providing high quality work on the platform. We also required that participants have a minimum of one year of business experience. We paid each participant US$3 for a successfully completed response. We felt this was a generous amount for a survey that most respondents completed in fifteen minutes or less, and that it would encourage high-quality responses. Subjects were required to respond to all survey questions to receive payment from MTurk.

For the main survey, we requested 360 responses. In the first day after publishing the survey on MTurk we received slightly over 200 responses, but the responses slowed significantly after that. Based on our online discussion with an MTurk consultant, the relatively slow rate of responses received after the first day was likely due to the fact that the number of MTurk Masters is limited. After four days we had obtained approximately 270 responses and there were more than 30 responses in each experimental cell. At that point we decided to cut off the responses. We carefully reviewed the responses for unusual patterns (such as highly consistent responding and short completion times) and deleted approximately 20 responses based on this review.

The final sample was comprised of 251 participants. The distribution of responses by cell is provided in Table 1. As indicated in the table, with the exception of cells 2 (no management disclosure, media disclosure) and 3 (symbolic disclosure, no media disclosure) the number of respondents in each group exceeded 40 and were approximately equal. Analysis of the data recorded in Qualtrics revealed that in the case of cells 2 and 3, several participants failed the manipulation check for the presence of external disclosures, while in the other cells the number of failures of this check were relatively small.[13] It is not clear why participants in these particular groups had a higher failure rate on this manipulation check. However, as discussed below, we empirically tested the effectiveness of the randomization process among the final sample and noted no problems.

[Table 1 here]

A summary of demographic information for respondents is provided in Table 2. As indicated in the Table, over 40 percent of participants had over 20 years of business experience, and over 80 percent had over 10 years of experience. Almost 90 percent of the sample were over the age of 30. Taken together, these results indicate that the sample was predominantly comprised of mature individuals with extensive business experience. Somewhat over half of respondents (56 percent) were male.

[Table 2 here]

To obtain information on investment experience, we asked participants if they (1) currently owned stock in a publicly traded company; (2) had recently owned stock in a publicly traded company; or (3) planned to invest in the stock of public companies in the future. A majority of the sample answered each of these three questions affirmatively as shown in Table 1. Supplemental analysis indicated that almost 80 percent of the sample either currently owned shares, had recently owned shares or planned to invest in the future. Thus, a strong majority of respondents appear to qualify as actual or potential stock market participants, suggesting that they are reasonable surrogates for nonprofessional investors.

Approximately 60 percent of participants had annual household income in excess of $50,000. Given that the median household income in the U.S. was approximately $68,000 in 2019 and will almost certainly decline in 2020 as a result of the COVID-19 pandemic (CNN, 2019), it appears likely that the median income of our sample was just slightly below the national average. Sixty-five percent of respondents reported possessing a bachelor's degree or higher; thus, they appear to be relatively well-educated.

To test the effectiveness of our randomization procedures, in supplementary analyses we examined the correlations between the case versions and each of the demographic measures. All these correlations were quite small, and none approached significance at conventional levels. Since there were no observed associations between any of the demographic characteristics and the case versions, it appears that the randomization was effective.

4. RESULTS

4.1 Correlations

We first tested the correlations among the demographic variables and our other measures, which are presented in Table 3. Notably, none of the traditional demographic measures (experience, age, gender, income and education) were significantly associated with any of the three dependent measures (short-term prospects, long-term prospects, investment intentions). In addition, none of these traditional demographic measures were significantly associated with assessments of management's commitment to integrity, ethics or corporate social responsibility. Consequently, these measures were excluded from subsequent analyses. Participants' reports of their personal investment horizon (short-term vs. long-term) were only associated with one of the dependent measures (the company's long-term prospects) at the .05 level. Based on this generally weak pattern of associations, investment horizon was also excluded from further analyses.

[Table 3 here]

Some significant associations were observed between the stock ownership measures (currently own, recently owned, plan to own shares) and the dependent variables. In particular, each of these stock ownership measures was significantly associated with respondents' assessments of the long-term prospects of the hypothetical company. The associations between the "currently own" and "recently owned" variables and assessments of long-term prospects were positive and significant at the .05 level. These results suggest that active participants in the stock market tend to be more optimistic regarding future market prospects.[14] A stronger positive association ($r = .218$, $p \leq .001$) was observed between the "plan to own" variable and assessments of the long-term prospects of the hypothetical company.

This result is somewhat intuitive, because investors who plan to invest in the future should have a more positive view of the long-term prospects of the market that predispose them to assess the prospects of a particular company more positively. The plan to own variable was also positively associated with investment decisions at the .05 level. Due to the associations between the stock ownership measures and the dependent variables, we ran alternative versions of our ANOVA models (see discussion below) that included each of the stock ownership variables as covariates. These models revealed significant positive associations between plans to invest in the stock market in the future and both assessments of the hypothetical company’s long-term prospects ($p \leq .01$) and the likelihood of increasing their investment in the hypothetical company ($p \leq .05$). However, the inclusion of these variables had no influence on any of the ANOVA results reported herein; consequently, the stock ownership variables were also excluded from subsequent analyses.

Another interesting aspect of the correlations is that the stock ownership variables were significantly associated with certain assessments of management morality. Those who planned to own shares of public companies in the future rated the integrity, commitment to ethical values, and commitment to social responsibility of company management relatively high ($p \leq .05$). Participants who reported recently owning shares also rated the integrity and ethical values of company management somewhat higher ($p \leq .05$). And current shareholders rated the ethical values of management relatively high ($p \leq .05$). It seems reasonable to expect that individuals who are predisposed to have higher levels of trust in public companies and their management would be more likely to (plan to) invest in the stock market, which could explain the observed relationships.

The correlations among the three dependent measures (short-term prospects, long-term prospects and investment decisions) were all highly significant. The correlation between short-term and long-term prospects ($r = .410$, $p \leq .001$) is not so large that it raises concerns regarding the distinctiveness of the measures. It should also be noted that participants' estimates of the company's long-term prospects were more strongly correlated with investment decisions ($r = .630$) than were assessments of short-term prospects ($r = .462$). This finding is consistent with the fact that a strong majority (204/251) of respondents indicated that they adopt a long-term investment horizon. Highly significant ($p \leq .001$) correlations were also observed among the dependent measures and assessments of the morality of company management. Evaluations of the integrity, ethical values and commitment to social responsibility on the part of company management were more strongly associated with estimates of long-term (as opposed to short-term) prospects for return on investment. This finding suggests that nonprofessional investors believe that higher levels of management morality will tend to be rewarded in the long-term. The strongest correlations were obtained for the association between the morality measures and investment decisions. This result is consistent with the findings for short-term and long-term prospects and indicates that nonprofessional investors are more willing to increase their investment in a company when they feel that management morality is relatively high. This finding is consistent with existing literature which suggests that investors are more likely to invest in companies with higher ethical values and commitment to CSR (Gödker & Mertins, 2018).

4.2 Hypothesis Tests

To test the hypotheses, we ran ANOVA models for each of the dependent measures. [15] The model for short-term prospects for return on investment is presented in Table 4. Panel A of the Table presents the ANOVA results, while Panel B presents the means (standard deviations) by experimental cell.

[Table 4 here]

The ANOVA model indicates that the main effect for the presence of media disclosure was highly significant, providing support for Hypothesis 1. Thus, participants' assessments of the short-term prospects of the company were significantly and negatively influenced by the presence of media disclosure of tax evasion. Consistent with Hypothesis 2, the management disclosure strategy by media disclosure interaction was also highly significant. It is evident from the cell means in Panel B of the table that this interaction was primarily due to the strong impact of media disclosure when management made no disclosure of the tax evasion event at all. Tests of simple effects confirmed this observation. The mean difference between groups 1 (control group) and 2 (media disclosure only) was highly significant ($p = .000$).[16] In contrast, the mean difference between groups 3 (symbolic disclosure, no media disclosure) and 4 (symbolic disclosure, media disclosure) was only marginally significant ($p = .055$), while the difference between groups 5 (substantive disclosure, no media disclosure) and 6 (substantive disclosure, media disclosure) was insignificant. These results indicate that if management proactively discloses a tax evasion event (either symbolically or substantively), subsequent media disclosure will have little impact relative to the case of no management disclosure.

To test Hypothesis 3, we performed simple contrasts of mean responses between the control group (no management disclosure, no media disclosure) and groups 3 (symbolic disclosure, no media disclosure) and 5 (substantive disclosure, no media disclosure). The results indicate that both these differences were highly significant (group 1 vs. 3 mean difference = 1.1, $p = .008$; group 1 vs. 5 mean difference = 1.1, $p = .004$). As is evident from the Table, any form of management disclosure of the facts regarding a tax evasion event (symbolic or substantive) decreased investors' assessments of the company's short-term prospects relative to the control group.

To test Research Question 1, we performed simple contrasts of the mean differences between groups 3 (symbolic disclosure, no media disclosure) and 5 (substantive disclosure, no media disclosure) and between groups 4 (symbolic disclosure, media disclosure) and 6 (substantive disclosure, media disclosure). Neither of these differences approached significance, and it is apparent from Table 4 that the differences in perceived short-term prospects between the symbolic and substantive groups were negligible. The results of the manipulation check for legitimation strategies indicated that participants viewed the symbolic disclosures as non-substantive, non-concrete rationalizations relative to the substantive disclosures, yet these differences had no impact on assessments of the company's short-term financial prospects. These results indicate that, given knowledge of the fact that corporate tax evasion has occurred, investors tend to dismiss management "talk" regarding the tax evasion event.

The ANOVA model for perceptions of the company's long-term prospects is presented in Table 5. The results presented in Panel A follow the same general pattern observed for short-term prospects, though the effects are weaker. The main effect for media disclosure was highly significant (p = .001), again consistent with Hypothesis 1. The interaction of management disclosure strategy and media disclosure was also significant (p = .028), which provides further support for Hypothesis 2. An analysis of the mean responses by experimental condition in Panel B of the Table indicates that as anticipated this interaction was driven by the difference between the control group and group 2 (no management disclosure, media disclosure). Tests of simple effects revealed that this difference was highly significant (p = .000), though it was much less pronounced than that observed for short-term prospects. Tests of the simple effects between groups 3 (symbolic disclosure, no media disclosure) and 4 (symbolic disclosure, media disclosure) and between groups 5 (substantive disclosure, no media disclosure) and 6 (substantive disclosure, media disclosure) revealed that neither difference was significant. As in the case of short-term prospects, these results indicate that management disclosure of the basic facts regarding tax evasion attenuates the negative impact of subsequent media disclosure.

[Table 5 here]

To test Hypothesis 3, we again relied on simple contrasts between the control group and groups 3 (symbolic disclosure, no media disclosure) and 5 (substantive disclosure, no media disclosure). These differences were not significant at conventional levels (group 1 vs. 3 mean difference = .42, p = .249; group 1 vs. 5 mean difference = .62, p = .106). Thus, management disclosure of the facts regarding a settled tax evasion event had no significant impact on investor assessments of the company's long-term prospects.

The contrasts of mean differences between groups 3 (symbolic disclosure, no media disclosure) and 5 (substantive disclosure, no media disclosure) and between groups 4 (symbolic disclosure, media disclosure) and 6 (substantive disclosure, media disclosure) were insignificant. Thus, Research Question 1 was not supported. Consistent with the results for short-term prospects, it appears that the form of management legitimation strategies (symbolic vs. substantive) for a tax evasion event had little influence on investor assessments of the company's long-term financial prospects.

Table 6, Panel A presents the ANOVA results for investment decisions. Consistent with the results for short-term and long-term financial prospects, the main effects of media disclosure and the interactive effects of disclosure strategy and media disclosure were highly significant. It is evident from the analysis of mean results in Panel B that the interaction effect was again due to the relatively large negative impact of media disclosure when company management made no disclosure of the tax evasion event. This was confirmed by analysis of simple effects. The mean difference between groups 1 and 2 was highly significant (p = .000), while the differences between groups 3 (symbolic disclosure, no media disclosure) and 4 (symbolic disclosure, media disclosure) and between groups 5 (substantive disclosure, no media disclosure) and 6 (substantive disclosure) were insignificant, indicating that media disclosure of corporate tax evasion has little impact on investment decisions when company management has previously disclosed the facts regarding the tax evasion in the financial statement footnotes. Thus, the findings for investment decisions supported Hypotheses 1 and 2.

[Table 6 here]

The test of Hypothesis 3 revealed highly significant differences between the control group (group 1) and both groups 3 (symbolic disclosure, no media disclosure) and 5 (substantive disclosure, no media disclosure) (group 1 vs. 3 mean difference = .93, p = .006; group 1 vs. 5 mean difference = .99, p = .005). Consistent with the hypothesis, management disclosure of the facts regarding a tax evasion event significantly decreased investors' intentions to maintain their current holdings of the company's stock relative to the control group.

The test of Research Question 1 (again based on simple contrasts between groups 3 vs. 5 and 4 vs. 6) found that symbolic vs. substantive management legitimation strategies had no significant effect, and the mean differences between these groups were negligible as indicated in the table. Consistent with the results for short- and long-term financial prospects, although participants viewed the symbolic disclosures as relatively vague rationalizations, this had no appreciable impact on their investment decisions.

4.3 Supplemental Analysis

To obtain insights regarding the role of perceived management morality in investor decision-making, we elicited perceptions of company management's commitment to integrity, ethics, and corporate social responsibility. We ran mediation models to examine the associations among the experimental manipulations (management disclosure and media disclosure), perceptions of management morality and the three primary dependent measures (short-term prospects, long-term prospects and investment decisions). Due to high inter-correlations among the three measures of management morality, we combined them into a single variable.[17] The results of the analyses for the media disclosure manipulation are presented in Table 7 and in Figures 2, 3 and 4, respectively.

[Table 7, Figures 2, 3, 4 here]

Consistent with our ANOVA results, the effects of management disclosure strategy (no disclosure, symbolic disclosure, substantive disclosure) had no significant (direct or indirect) effects on investor judgments; thus, the results of these models are not presented herein. The model for the effects of media disclosure on short-term prospects is presented in Panel A of Table 7 and in Figure 2. The analysis reveals that media disclosure had highly significant direct effects on estimates of short-term returns. The links between the media disclosure manipulation and perceptions of management morality and between management morality and estimated short-term prospects were also highly significant. Based on a 95 percent bootstrapped confidence interval, the indirect effect of media disclosure was significant. Thus, perceptions of management morality partially mediated the relationship between media disclosures of corporate tax evasion and the estimated short-term returns on investments in the company's stock.

The model for long-term prospects, presented in Table 7 Panel B and Figure 3, indicates that assessments of the long-term potential for return on investment were fully mediated by perceptions of management morality. The direct path between the media disclosure variable and estimates of long-term prospects did not approach significance. In contrast, the media disclosure/perceived morality and perceived morality/long-term prospect links were both highly significant. The bootstrapped 95 percent confidence interval indicated that the negative indirect effect of media disclosure on the estimated long-term prospects of the company was significant.

The model for investment decisions is presented in Panel C of Table 7 and Figure 4. The results are similar to those for short-term prospects. The direct association of media disclosure with investment decisions was significant and negative. Once again, both links of the mediation path were highly significant and a bootstrapped confidence interval confirmed the significance of the indirect effect.

Thus, perceptions of management morality partially mediated the effects of media disclosure of tax evasion on participants' willingness to hold the company's stock. Taken together, the results of the supplemental analysis suggests that investor perceptions of management morality play a critical role in their reactions to media disclosures of tax evasion.

5. CONCLUSIONS AND DISCUSSION

Based on our empirical results we draw a number of conclusions. As anticipated, media disclosure of tax evasion events had significant negative effects on nonprofessional investors' judgments of a company's short- and long-term financial prospects and their willingness to hold the company's stock. For all judgments, we also found significant interactive effects of media disclosure and management disclosure strategies regarding tax evasion, though this effect was less pronounced for assessments of long-term prospects. These results suggest that nonprofessional investors value corporate tax compliance from a moral perspective and punish companies for attempts to conceal settled tax evasion events. Our findings also reveal that, provided management discloses the basic facts regarding tax evasion events, subsequent media disclosure will not have significant negative effects on investor judgments or decisions. Thus, although company management may be tempted to conceal tax evasion events, they are likely to face significant negative consequences if the evasion is subsequently disclosed by reputable third parties. On the other hand, if they comply with their professional and ethical obligations for full and fair disclosure, subsequent media disclosure should have little impact.

We also found that if management discloses the facts surrounding a tax evasion event (in the absence of media disclosure), this has highly significant negative effects on investors' judgments of the company's short-term financial prospects and their willingness to maintain their current investment in the company relative to a control group. However, management disclosure of facts regarding tax evasion had no significant impact on investor assessments of the company's long-term financial prospects. This finding indicates that, even in relatively clear and material cases of tax evasion, participants felt the financial impacts would be relatively fleeting and would be "shrugged off" by financial markets in the long-term.

Our results also indicate that, given knowledge that tax evasion has occurred, investors place little reliance on management attempts to legitimize the evasion. Specifically, we found no differences in investor responses to tax evasion under conditions of symbolic vs. substantive management disclosure strategies. Although participants felt that symbolic disclosures were vague attempts at rationalization lacking in genuine concern relative to substantive disclosures, this had no influence on their judgments of the company's prospects or their investment decisions. These results contradict recent findings in the broader ESG context (Hahn et al., 2021), and suggest that investors tend to dismiss management "talk" in cases that involve relatively clear instances of tax evasion. Thus, management's breach of trust with shareholders appears to be the dominant signal sent by their disclosures of facts regarding corporate tax evasion. In the wake of such disclosures, management has quite limited ability to legitimize tax evasion events, even if their disclosures describe specific, concrete and substantive remediation strategies.

Our supplemental analysis indicated that perceptions of management commitment to integrity, ethical values and corporate social responsibility play an important role in investment decisions. Notably, media disclosure of tax evasion not only directly influenced investor assessments of the short-term prospects of the company and their willingness to hold the company's stock but also indirectly influenced their judgments through perceptions of management morality. In addition, perceptions of management morality fully mediated the negative impact of media disclosure of tax evasion on investor assessments of the long-term prospects of the company. Taken altogether, these findings indicate that nonprofessional investors value management commitment to ethics and social responsibility as a matter of principle, beyond mere instrumental considerations.

There are a number of possibilities for extending this line of research. We found no significant correlations between participants' income levels and their reactions to disclosures of tax evasion. But this may be due to the fact that the dispersion of income levels for our sample was relatively small, with few participants having very high incomes. Future studies could investigate the effects of income levels on tax evasion attitudes using samples that include a sufficient number of taxpayers with very high incomes. It is often observed that higher income individuals have both stronger incentives and more resources to engage in corruption (Sikka, 2015, 2010; You & Khagram, 2005). In the context of tax evasion, greater resources provide access to expensive tax and legal services provided by accounting and law firms. This issue has received significant media attention in the U.S. recently, with many articles suggesting that wealthy taxpayers and corporations often enjoy low tax rates as a result of complex legal machinations (e.g., Cohen, 2021; Corbett, 2021; Huang, 2021; The New York Times Editorial Board, 2021). Such observations raise the possibility that high income individuals have relatively cavalier attitudes toward tax avoidance/evasion, which should be of significant interest to policymakers.

The current study focused on disclosures of a settled tax evasion event that arose in the most recent fiscal year of the company. Many alternative situations are also of interest. For instance, as reported by Goldstein (2021), Robert Smith, the CEO of Vista Equity Partners, recently settled one of the largest tax evasion cases in U.S. history, and Vista investors "barely blinked". The lack of a significant reaction by investors was attributed primarily to the fact that Vista had been periodically disclosing facts regarding the tax evasion investigation as the case developed over a four-year period. This echoes the finding of our study that, provided management discloses the facts regarding tax evasion events, subsequent media disclosure has little impact on investor judgments and decisions.

The Vista case also raises at least two issues that scholarly researchers may wish to address. First, what are the effects of management disclosures of facts regarding ongoing tax investigations in multi-year settings? Multi-year investigations of suspected cases of tax evasion are quite common in the U.S., and it may be the case that if management discloses facts regarding such investigations from their inception to conclusion this will brace investors for the eventual outcome by signaling a high level of concern by management with full and fair disclosure.[18] Second, in the Vista case the tax evasion charges were leveled at the CEO himself rather than the investment fund. Nevertheless, Vista obviously recognized that charges of personal improprieties by top management could have a damaging effect on the company itself, raising concerns regarding management character. Future studies may also investigate issues arising from the commission of tax evasion by members of top management teams. For instance, will the negative effects of tax evasion on investor perceptions be limited primarily to cases involving CEOs, or will such effects extend to improprieties by other members of the top management team or the company's Board of Directors?

Another area of potential research is the effects of taxpayers' personality traits on their attitudes toward aggressive avoidance/evasion. For instance, elements of the Dark Triad (narcissism, Machiavellianism and psychopathy) (Muris, Merckelbach, Otgaar & Meijer, 2017) may predispose taxpayers to view aggressive avoidance/evasion strategies primarily from an economic perspective. Machiavellianism is perhaps most relevant in this context because it is well-known that high Machiavellians are characterized by cold and calculating attitudes and a relative lack of concern with conventional social norms of morality (Christie & Geis, 1970; Muris et al., 2017). If dark personality traits are significantly associated with advocacy of aggressive corporate tax avoidance/evasion strategies, this implies that governments should invest more in the detection and punishment of tax evaders, because individuals who possess dark personalities will not be easily influenced by appeals to morality, civic virtue or social responsibility as motivations for tax compliance.

There are other important individual differences that appear likely to aid our understanding of attitudes toward aggressive tax avoidance/evasion. For instance, ideological beliefs and worldviews such as a social dominance orientation (e.g., Jost & Thompson, 2000; Azevedo, Jost, Rothmund & Sterling, 2019) may be particularly helpful in explaining differences in the propensity to condone tax evasion. However, such ideological beliefs have been largely ignored in the tax evasion literature. A social dominance orientation includes both a desire for group-based dominance and support for inequality (Jost & Thompson, 2000), both of which may motivate a strong desire for wealth accumulation and the rationalization of tax evasion. The influence of such ideologies on attitudes toward tax evasion could be investigated in future studies.

This is the first experimental study of investor reactions to disclosures of settled tax evasion events. It is subject to limitations commonly associated with experimental research. In particular, experimental studies rely on somewhat simplified decision contexts that may not be reflective of actual practice. We took certain measures designed to mitigate this problem, such as using a case study based on an actual public company's audited financial statements. We also felt it was important to provide participants with the complete set of financial information and disclosures before soliciting their judgments, thus requiring them to discriminate among the more or less important information as in actual practice. The study was not incentivized; consequently, participants' attention to the task was likely weaker than that involved in actual investment decisions. We attempted to control for this issue by using attention checks and by carefully screening the data for abnormal response patterns. In addition, we believe the compensation for participation was relatively generous (US$3 for a survey most subjects completed within 15 minutes), which should have helped motivate adequate levels of attention.

LIST OF APPENDICES

Appendix A: Investment Case

Background and Financial Information (received by all participants):

Hightech Inc. is one of the most profitable holdings in your stock portfolio. The company was incorporated on April 1, 1996 and listed on the NASDAQ in July 2005. The primary business activity of Hightech is the manufacturing and sale of sensor devices for use in commercial, engineering and medical applications. The company currently sells its products in more than 50 countries.

The following information was taken from the audited financial statements of Hightech for the two years ending December 31, 2019. These statements were issued in March 2020.

	For the period ended December 31, 2019	For the period ended December 31, 2018
Revenue	$254,000,000	$225,000,000
Gross profit	201,000,000	181,000,000
Income before taxes	160,000,000	156,000,000
Income after taxes	133,000,000	118,000,000
Earnings per share	2.55	2.10
Total assets	743,000,000	711,000,000
Total liabilities	9,000,000	8,000,000
Stockholders' equity	734,000,000	703,000,000
Cash flows from operations	129,000,000	121,000,000
Share price	$80	$65

Company management is very optimistic regarding the company's future prospects. The company's vision is to be the leading producer of sensor devices and it has plans to market its products to the automobile industry. Due to the projected growth in demand for advanced sensors in automobiles, management believes this market will result in large increases in sales and profitability over the next several years.

Manipulation of Management Disclosure Regarding Tax Evasion:

(1) No Disclosure:
No mention of tax evasion.

(2) Disclosure of Tax Evasion with Symbolic (Highlighted) Response:

The following information was disclosed by Hightech's management in a footnote to the Company's 2019 financial statements (this information has not been publicly disclosed by the news media):

Federal Income Taxes

The Company's income tax return for 2018 was audited by the Internal Revenue Service (IRS) during 2019, and some problems arose during the audit. Specifically, the Company had taken certain tax deductions during 2018 which were determined by the IRS to be in violation of the current tax code. As a result, the IRS disallowed these deductions, resulting in an increase in taxes payable of $12.5 million. The IRS also imposed a tax penalty that was equal to the amount of additional taxes payable ($12.5 million). Thus, the total additional payment required was $25 million.

This was the first time the Company has ever been required to pay additional taxes and penalties by the IRS. Similar incidents occur regularly in business – companies often take certain tax deductions they have reason to believe are legitimate, but which are later disallowed by the tax authorities. Thus, periodic adjustments of tax expense and liabilities by the authorities are virtually inevitable. The Company is confident that its management acted in good faith and believed that the disallowed deductions were legitimate.

(3) Disclosure of Tax Evasion with Substantive (Highlighted) Response:

The following information was disclosed by Hightech's management in a footnote to the Company's 2019 financial statements (this information has not been publicly disclosed by the news media):

Federal Income Taxes

The Company's income tax return for 2018 was audited by the Internal Revenue Service (IRS) during 2019, and some problems arose during the audit. Specifically, the Company had taken certain tax deductions during 2018 which were determined by the IRS to be in violation of the current tax code. As a result, the IRS disallowed these deductions, resulting in an increase in taxes payable of $12.5 million. The IRS also imposed a tax penalty that was equal to the amount of additional taxes payable ($12.5 million). Thus, the total additional payment required was $25 million.

The Company takes such matters very seriously and is committed to upholding high standards of ethics and social responsibility. In response to the IRS disallowance of certain tax deductions, the Company initiated several specific actions designed to minimize the chance of similar occurrences in the future. An independent law firm was engaged to investigate the incident and provide a detailed report to the Company's Board of Directors and Audit Committee. As a result of this investigation the Director of the Company's tax department was replaced by a more qualified individual. In addition, the independent law firm will be engaged on a continuing basis to review the Company's tax returns before they are filed. The Company's internal auditors, who report directly to the Audit Committee of the Board of Directors, will also take a more active role in monitoring the activities of the tax department.

Manipulation of Media Disclosure Regarding Tax Evasion:

(1) No External Disclosure:
No mention of media disclosure regarding tax evasion.

(2) External Disclosure

After the financial statements were issued, the following information was publicly reported by the news media, specifically in The Wall Street Journal:

Date: 20 April, 2020

Sensor Devices Company required to pay additional taxes and penalties

Hightech Inc., a sensor devices company, took certain tax deductions during 2018 which were determined by the Internal Revenue Service (IRS) to be in violation of the current tax code based on an audit of the Company's tax return. These deductions were disallowed by the IRS and the Company's tax liability for 2018 was increased by $12,500,000 as a result. Under the terms of a settlement agreement, the company was required to repay the unpaid taxes of $12,500,000 plus a 100 percent penalty of $12,500,000 (total additional payment of $25,000,000).

Concluding Remarks and Questions (received by all participants, parenthetical comments added):

You have held shares of Hightech's common stock for approximately two years and have earned a total return on the shares (dividends plus appreciation) of approximately 20 percent per year.

Based only on the information provided above, please indicate your answer to the following questions.

1. Was there any indication in the case that tax deductions disallowed by the IRS were publicly reported by the news media, specifically in the Wall Street Journal? Yes / No *(manipulation check for external disclosure, survey terminates here if answered incorrectly)*

2. How would you rate Company management's response to the disallowed tax deductions and the fine imposed by the IRS as discussed in the annual report disclosures? *(manipulation checks for symbolic vs. substantive legitimation, only applicable to the four internal disclosure conditions)*

1	2	3	4	5	6	7	8	9	10
Rationalization									Genuine Concern

1	2	3	4	5	6	7	8	9	10
Vague									Concrete

1 2 3 4 5 6 7 8 9 10
Symbolic Substantive

3. How would you rate the short-term prospects of HighTech in terms of return on your investment?

1 2 3 4 5 6 7 8 9 10
Negative returns Positive
returns

4. How would you rate the long-term prospects of HighTech in terms of return on your investment?

1 2 3 4 5 6 7 8 9 10
Negative returns Positive
returns

5. Assume you are currently evaluating your stock portfolio and considering whether you should reallocate some of your investments. With respect to your investment in HighTech, would you be more likely to increase or decrease your current investment amount?

1 2 3 4 5 6 7 8 9 10
Significant decrease Significant
increase

6. Based on the information in the case, how would you rate the integrity of HighTech's top management?

1 2 3 4 5 6 7 8 9 10
Low Integrity High Integrity

7. Based on the information in the case, how would you rate the ethical values of HighTech's top management?

1 2 3 4 5 6 7 8 9 10
Unethical Ethical

8. Based on the information in the case, how would you rate the commitment of HighTech's top management to corporate social responsibility?

1 2 3 4 5 6 7 8 9 10
Not committed Highly
committed

ENDNOTES

[1] We focus on illegal tax evasion in the current study but recognize that various types of aggressive tax avoidance may occupy a "gray area" between legal avoidance and illegal evasion. Although firms engaging in aggressive tax avoidance claim to be operating within the law, tax authorities periodically initiate legal proceedings against them and their "avoidance" strategies are sometimes ultimately deemed to be illegal tax evasion (Sikka, 2010; Yang & Metallo, 2018). Because the distinction between aggressive avoidance and illegal evasion is not always clear and is often contested, we often use the phrase "tax avoidance/evasion" herein.

[2] The issue of reducing tax avoidance/evasion has been on the G20's agenda since the financial crisis of 2008. The BEPS action plan, however, was only introduced in mid-2016 and it is still in the implementation stage. The action plan is not mandatory, but currently 135 countries have opted to participate in the plan. The BEPS plan consists of 15 actions, of which four are minimum standards (OECD, 2016). Some examples of the minimum standards include country-by-country reporting and prevention of tax treaty abuse. Given that the plan is not fully operationalized, it will take some time for any potential reductions in tax evasion to be seen.

[3] We note that corporate tax evasion is clearly a social issue, and it often reflects weak corporate governance. But prior studies of the impacts of ESG transgressions on investors have largely ignored tax evasion.

[4] ESG events have been the focus of much previous research on corporate legitimation strategies (e.g., Patten, 1992; Walden & Schwartz, 1997; Deegan, 2002; Deegan & Rankin, 1996).

[5] Due to the ambiguity often present regarding the legality of aggressive tax avoidance, Blaufus et al. (2019) relied on a panel of experts (including tax researchers and graduate taxation students) to read the news stories and rate the legality of the events described on a five-point scale. Based on a mean split of these ratings, the events were classified as either legal avoidance or illegal evasion.

[6] This general argument is supported by a great deal of research in social psychology and management. As noted by Paruchuri, Han & Prakash (forthcoming), it has been widely recognized and documented in the signaling theory literature that *capability* and *character* are two fundamental dimensions of impression formation (e.g., Connelly, Ketchen, Gangloff & Shook, 2016; Fiske, Cuddy & Glick, 2007; Park & Rogan, 2019; Stellar & Willer, 2018). Further, research has found that signals relating to character generally have primacy over those relating to capability (Beckert, 2006; Gomulya & Mishina, 2017; Jensen, 2006). Consequently, signals that raise concerns regarding management integrity should be particularly salient to investors.

[7] Disclosure of settled or adjudicated tax evasion events that materially impact a company's financial statements is required by generally accepted accounting principles (GAAP). However, the long history of documented cases of financial statement fraud clearly illustrates that companies' strategic disclosure decisions are often decoupled from professional and regulatory requirements (e.g., Knapp, 2015).

[8] It should be noted that Reimsbach & Hahn (2015) found that proactive management disclosure of negative environmental, social and governance events did not have a significant negative impact on investor judgments relative to a control group. They argue that such disclosures signal that company management is proactively dealing with the issues, which should mitigate investors' concerns. However, Reimsbach & Hahn (2015) focused on ESG events involving "questionable business conduct" along the disclosing company's supply chain. Thus, company management was not directly implicated in antisocial or illicit activities. Under these circumstances there should be no clear negative signal regarding the character of company management; consequently, it is reasonable to expect that management's proactive disclosures regarding transgressions by its suppliers would be viewed as a positive reflection on management integrity.

[9] Hahn & Lülfs (2014) further identified six specific types of legitimation strategies used by companies in their sustainability reports, two of which were classified as substantive and four of which were classified as symbolic. The substantive strategies included disclosures of corrective actions of two types: (1) the provision of relatively imprecise ideas, intent or measures to reduce the likelihood of negative incidents recurring; and (2) the provision of concrete ideas, intent or measures to prevent recurrence. The disclosure of relatively imprecise remediation measures did not significantly influence investor behavior in the Hahn et al. (2021) study and consequently we omit this strategy from further discussion. The four symbolic disclosure strategies included (1) marginalization (e.g., claiming that the negative events were irrelevant, unimportant or neglible); (2) abstraction (e.g., generalizing the negative events as being prevalent in practice); (3) rationalization (e.g., highlighting certain benefits or purposes that excuse the incidents, or suggesting that such events are normal, natural or inevitable occurrences; and (4) authorization (e.g., referring to authorities or authoritative sources to excuse the incident). We adopt the first three of these symbolic strategies in our experimental manipulations.

[10] Recent studies of the effects of corporate disclosures on investor judgments (e.g., Hahn et al., 2021) have adopted a sequential approach that presents relevant information to participants incrementally, assesses their judgments at each step, and uses the changes in their judgments (difference scores) as the primary dependent measure. For instance, we could have first presented participants with disclosure of the basic facts regarding tax evasion, assessed their judgments, and then presented the additional management disclosures designed to legitimize the evasion event followed by a reassessment of judgments. We chose not to adopt this approach because it has relatively low external validity. In the case of financial statement disclosures, in actual practice users will be presented with all financial information and the complete footnotes, and they must screen the information and select which elements (signals) are most relevant to their judgments. To better capture the reality of this process, many behavioral accounting studies present participants with a relatively complete set of information as a basis for their judgments and decisions (Chan & Milne, 1999). This approach provides a stronger test of the effects of disclosures on investor judgments because it does not explicitly highlight or emphasize the information of primary interest. It is also apparent that requiring multiple within-subjects judgments may create demand effects. If participants are asked to provide judgments based on partial disclosures, then presented with additional information and asked to make the same judgments again, it seems quite likely they will believe they are expected to change their initial judgments in a certain way.

[11] Specifically, the footnote indicated that the Internal Revenue Service (IRS) audited the company's prior-year tax return, and that certain deductions taken by the company for tax purposes were deemed to be in violation of the tax code and thus disallowed, resulting in an increased tax liability (see Appendix A). The case also indicated that the IRS imposed a penalty on the company of 100 percent of the increased tax liability. To help ensure the salience of the event to participants, the amounts of the additional taxes payable and the fine imposed by the IRS were set above traditional materiality thresholds which are usually around five percent of earnings (Acito, Burks & Johnson, 2019).

[12] In the context of our study, it was not apparent how the fourth symbolic strategy (making references to authoritative sources to justify the incident) could be employed. This is at least partially due to the fact that we survey nonprofessional investors who are unlikely to be familiar with corporate tax law, and consequently we did not reference any specific or detailed violations of the tax code. As noted, the four major categories of symbolic strategies were proposed by Hahn & Lülfs (2014) based on an extensive review of the strategies adopted by many companies; consequently, one would not expect all the strategies to apply to any given incident.

[13] When surveys are prepared in Qualtrics and published in MTurk, the results are recorded in Qualtrics. Qualtrics records information on all attempted responses, so it is easy to determine the number of participants who failed this type of manipulation check because their responses end at the point of the check.

[14] This result could be interpreted as counterintuitive in the case of respondents who "recently owned" shares, because it could be argued that such investors may have disposed of their stocks due to a negative outlook on the market. However, it should be noted that there was significant overlap

between the “currently own” and “recently owned” cohorts, with many participants answering both questions affirmatively.

[15] As previously discussed, we omitted the demographic measures from our ANOVA models based on their weak correlations with the primary variables of interest. We ran alternative versions of all the ANOVA models reported herein that included all the demographic variables as covariates. These models indicated that neither age, experience, gender, income, nor education level were significantly associated with any of the three dependent measures. Only isolated significant effects for stock ownership and short-term vs. long-term investment horizon were noted. Most importantly, the inclusion of the demographic measures in the models had negligible effects on all the results obtained for the two manipulated variables and their interactions.

[16] All p-values reported herein are based on two-tailed tests.

[17] As indicated in Table 3, the correlations among the three morality measures all exceeded .75, raising questions regarding whether they should be treated as distinct measures. We ran an exploratory factor analysis of the three items and found that they all loaded very highly on a single dimension (loadings ranged from .90 to .96). The inclusion of such closely associated measures in the same linear model would pose serious threats of multicollinearity. Based on these considerations we elected to combine them into a single measure.

[18] We recognize that such situations may raise legal issues and there may be limitations on disclosures of ongoing investigations; thus, care should be taken to ensure that experimental cases are realistic.

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Table 1: Distribution of Participants' Responses

	No Media disclosure	Media Disclosure	Row Total
No Management Disclosure	44	35	79
Symbolic Management Disclosure	38	43	81
Substantive Management Disclosure	46	45	91
Column total	128	123	251

Table 2: Demographics

Business experience in years

	Frequency	Percent
1-5 years	11	4.4
6-10 years	35	13.9
11-15 years	44	17.5
16-20 years	54	21.5
more than 20 years	107	42.6
Total	251	100.0

Age

	Frequency	Percent
21-30	32	12.8
31-40	103	41.0
41-50	67	26.7
51-60	38	15.1
>60	11	4.4
Total	251	100.0

Gender

	Frequency	Percent
Male	140	55.8
Female	111	44.2
Total	251	100.0

Currently own stock

	Frequency	Percent
Yes	141	56.2
No	110	43.8
Total	251	100.0

Recently owned stock

	Frequency	Percent
Yes	155	61.8
No	96	38.2
Total	251	100.0

Plan to invest in stock in the future

	Frequency	Percent
Yes	173	68.9
Uncertain	54	21.5
No	24	9.6
Total	251	100.0

Household income

	Frequency	Percent
<20,000	23	9.2
20,000-34,999	37	14.7
35,000-49,999	46	18.3
50,000-74,999	78	31.1
75.000-99,999	31	12.4
>100,000	36	14.3
Total	251	100.0

Education level

	Frequency	Percent
High School	73	29.1
Bachelor's	136	54.2
Masters	24	9.6
PhD	4	1.6
Other	14	5.6
Total	251	100.0

Table 3: Descriptive Statistics and Correlation Coefficients

Variable	Mean	S.D	Exp	Age	Gender	Own	RecOwn	PlanOwn	Inc	Ed	ST.LT	STPros	LTPros	Invest	Integ	Ethics	CSR
Exp			1														
Age			.711***	1													
Gender			.102	.220***	1												
Own			-.081	-.167**	-.184**	1											
RecOwn			-.048	-.154*	-.191**	.825***	1										
PlanOwn			-.156*	-.202**	-.147*	.587***	.605***	1									
Inc			.003	-.056	.022	.383***	.334***	.258***	1								
Ed			-.016	.030	.120	.004	-.064	.047	.081	1							
ST.LT			-.103	-.173**	-.107	.296***	.190**	.251***	.165**	-.040	1						
STPros	5.98	2.14	.097	.112	.078	-.010	.037	.021	-.030	.033	-.005	1					
LTPros	7.24	1.93	.048	.064	-.017	.128*	.142*	.218***	.078	.090	.135*	.410***	1				
Invest	5.34	1.79	.014	.008	-.003	.041	.066	.151*	.059	.090	.079	.462***	.630***	1			
Integ	5.90	2.29	.072	.093	-.031	.123	.152*	.159*	.107	.086	.051	.389***	.588***	.631***	1		
Ethics	5.75	2.30	.113	.118	-.023	.129*	.138*	.150*	.113	.096	.045	.378***	.575***	.605***	.938***	1	
CSR	5.46	2.21	.050	.062	.019	.023	.041	.132*	.018	.032	.035	.342***	.453***	.504***	.767***	.779***	1

Note:
*** Correlation is significant at the 0.00 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed.

Legend:
Exp: Years of Working experience
Own: Currently own stock of public companies
RecOwn: Recently owned stock of public companies
PlanOwn: Plan to invest in the stock of public companies in the future

Inc: Income
Ed: Education
ST.LT: Self-report of short- vs. long-term investment horizon
STPros: Perceptions of the short-term financial prospects of the hypothetical company
LTPros: Perceptions of the long-term financial prospects of the hypothetical company
Invest: Decisions regarding future investment in the hypothetical company
Integ: Perceptions of management integrity
Ethics: Perceptions of the ethical values of management
CSR: Perceptions of management's commitment to corporate social responsibility

Table 4: Short-term Prospects

Panel A: ANOVA Results

Source	DF	SS	MS	F-Statistic	p-value
Corrected model	5	228.770	45.754	12.250	0.000
Disclosure strategy	2	0.891	0.446	0.119	0.888
Media disclosure	1	156.731	156.731	41.962	0.000
Disclosure strategy x media disclosure	2	81.584	40.792	10.921	0.000
Error	245	915.087	3.735		

Panel B: Descriptive statistics

		Media disclosure					
		N	No	n	Yes	n	Row total
Disclosure by the company?	No	44	7.455 (0.291)	35	4.229 (0.327)	79	5.842 (0.219)
	Yes – Symbolic	38	6.368 (0.314)	43	5.512 (0.295)	81	5.940 (0.215)
	Yes – Substantive	46	6.326 (0.285)	45	5.644 (0.288)	91	5.985 (0.203)
	Column total	128	6.716 (0.171)	123	5.128 (0.175)	251	5.976 (2.139)

Note: Panel B reports means (standard deviations) and the number of participants in each cell.

Table 5: Long-term Prospects

Panel A: ANOVA Results

Source	DF	SS	MS	F-Statistic	p-value
Corrected model	5	64.506	12.901	3.634	0.003
Disclosure strategy	2	1.233	0.617	0.174	0.841
Media disclosure	1	41.920	41.920	11.809	0.001
Disclosure strategy x media disclosure	2	25.768	12.884	3.630	0.028
Error	245	869.669	3.550		

Panel B: Descriptive statistics

		Media disclosure					
		N	No	n	Yes	n	Row total
Disclosure by the company?	No	44	7.977 (0.284)	35	6.257 (0.318)	79	7.117 (0.213)
	Yes – Symbolic	38	7.553 (0.306)	43	7.023 (0.287)	81	7.288 (0.210)
	Yes – Substantive	46	7.348 (0.278)	45	7.133 (0.281)	91	7.241 (0.198)
	Column total	128	7.626 (0.167)	123	6.805 (0.171)	251	7.243 (1.933)

Note: Panel B reports means (standard deviations) and the number of participants in each cell.

Table 6: Investment Decisions

Panel A: ANOVA Results

Source	DF	SS	MS	F-Statistic	p-value
Corrected model	5	110.417	22.083	7.798	0.000
Disclosure strategy	2	0.297	0.149	0.053	0.949
Media disclosure	1	70.247	70.247	24.806	0.000
Disclosure strategy x media disclosure	2	42.705	21.352	7.540	0.001
Error	245	693.798	2.832		

Panel B: Descriptive statistics

		Media disclosure					
		N	No	n	Yes	n	Row total
Disclosure by the company?	No	44	6.477 (0.254)	35	4.229 (0.284)	79	5.353 (0.191)
	Yes – Symbolic	38	5.553 (0.273)	43	5.023 (0.257)	81	5.288 (0.187)
	Yes – Substantive	46	5.478 (0.248)	45	5.067 (0.251)	91	5.272 (0.176)
	Column total	128	5.836 (0.149)	123	4.773 (0.153)	251	5.338 (1.793)

Note: Panel B reports means (standard deviations) and the number of participants in each cell.

Table 7: Mediation Analysis

Panel A: Short-term Prospects

	Consequent					
	Morality			Short-term Prospects		
Antecedent	Beta	SE	P	Beta	SE	P
Constant	6.26	0.18	.000	4.72	0.40	.000
Morality	-	-	-	0.32	0.06	.000
Media Disclosure	-1.15	0.26	.000	-1.16	0.25	.000
Model F (p-value)		19.43 (.000)			35.70 (.000)	
R Squared		0.07			0.22	

Panel B: Long-term Prospects

	Consequent					
	Morality			Long-term Prospects		
Antecedent	Beta	SE	P	Beta	SE	P
Constant	6.26	0.18	.000	4.45	0.34	.000
Morality	-	-	-	0.51	0.05	.000
Media Disclosure	-1.15	0.26	.000	-0.20	0.21	.341
Model F (p-value)		19.43 (.000)			61.34 (.000)	
R Squared		0.07			0.33	

Panel C: Investment Decisions

	Consequent					
	Morality			Investment Decisions		
Antecedent	Beta	SE	P	Beta	SE	P
Constant	6.26	0.18	.000	2.78	0.30	.000
Morality	-	-	-	0.49	0.04	.000
Media Disclosure	-1.15	0.26	.000	-0.47	0.18	.011
Model F (p-value)		19.43 (.000)			81.62 (.000)	
R Squared		0.07			0.40	

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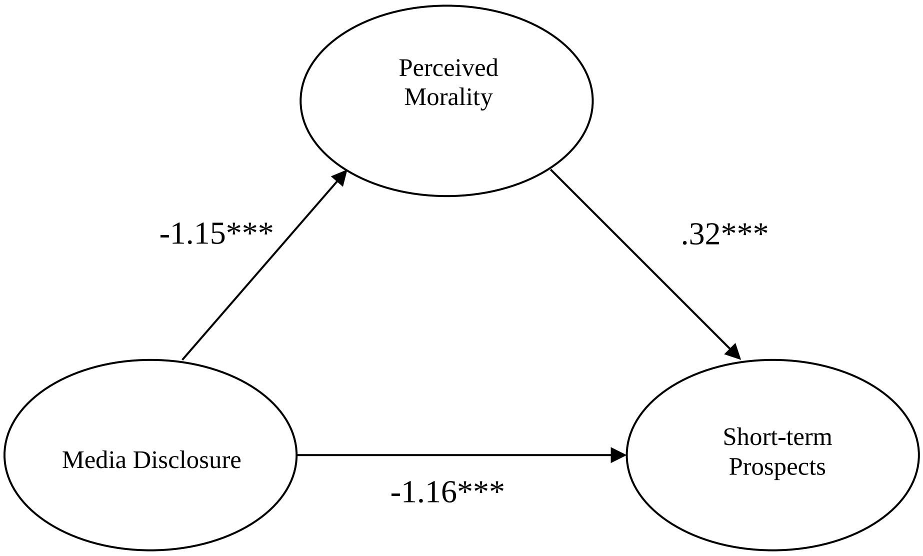
Figure 1: Experimental Groups

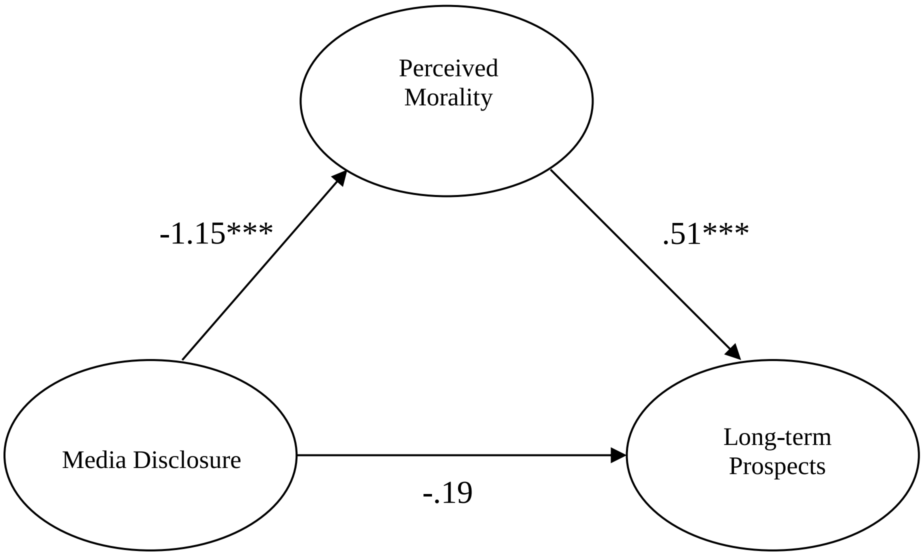
	No Media Disclosure	Media Disclosure
No Management Disclosure	1	2
Symbolic Management Disclosure	3	4
Substantive Management Disclosure	5	6

Figure 2: Mediation – Media Disclosure, Morality and Short-term Prospects



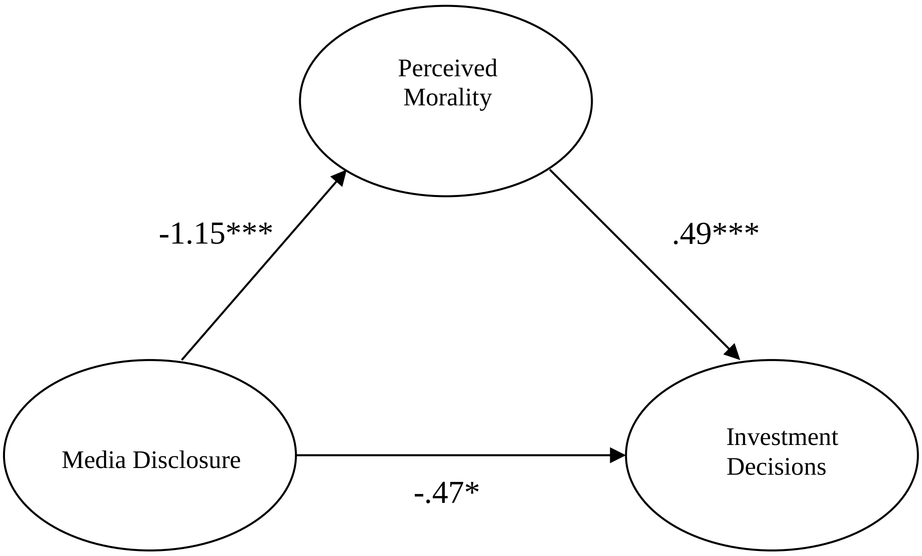
Note: ***Significant at p = .000 level

Figure 3: Mediation – Media Disclosure, Morality and Long-term Prospects



Note: ***Significant at p = .000 level

Figure 4: Mediation – Media Disclosure, Morality and Investment Decisions



Note: *Significant at p = .05 level; *** Significant at p = .000 level

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