

# **Legitimacy Perceptions in the Corporate Tax Avoidance Field: A Deliberation Experiment**

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## **Abstract**

Today the behavior of business firms is scrutinized and often critically discussed in the media, by politicians, by critical NGOs, and various stakeholder groups. The corporate “license to operate” depends on a positive assessment of the behavior of business firms. In order to maintain their legitimacy and to achieve social acceptance, the mere compliance with the law often is not sufficient, as the various constituencies assess the corporate behavior along different legal, moral, social and environmental expectations. Also the practice of corporate tax optimization has come under public scrutiny. Media reports on firms such as Apple, Google, Starbucks and others show that this practice is critically discussed. These discussions also concern the role of the ‘Big Four’ (Deloitte, EY, KPMG, PwC) and other tax accounting firms that develop tax optimization schemes or negotiate rulings with the authorities. Some critics even speak of a “tax avoidance industry” and demand changes in corporate behavior and in legal regulations. The process of how these perceptions evolve and change over time and how deliberations contribute to these changes is not yet sufficiently understood. Therefore, we focus on the perceived legitimacy of tax avoidance and prominent actors in the field and explore the influence of deliberations on legitimacy perceptions under various conditions. We conduct a study with an experimental design in which small groups of individuals discuss issues around corporate tax optimization with representatives of tax accounting firms (‘Big Four’) and civil society actors (critical NGOs) involved in different experimental treatment groups. We develop theory on how legitimacy perceptions are influenced by the deliberations and the various treatment conditions. In particular, we theorize on the conditions that lead to a decrease or increase of the legitimacy perceptions of the “Big Four” actors on the one hand and the tax avoidance practice on the other.

## **Introduction**

Recent corporate scandals like the Diesel exhaust system scandal of Volkswagen in 2015, the BP oil spill in the Gulf of Mexico in 2010, or the Siemens corruption case back in year 2006 impressively made clear that the success of multinational corporations (MNCs) can stand and fall with another factor: social acceptance. Matters for MNCs are complicated further by the fact that it is increasingly difficult for corporations to remain their legitimacy in a globalized world with heterogeneous legal and moral expectations. While MNCs act by definition transnationally and often operate in states with incomplete legal system, that e.g. lack legal sanctioning of human rights abuse, child labor, environmental pollution, and corruption, there is an increasing call for corporations to take on a political responsibility and they are expected to engage in self-regulation as well as to conform with high social and environmental standards. At the same time, new technologies and social media serve the transparency of business operations and facilitate the disclosure of corporate misconduct and scandals alike.

In order to deal with various (often conflicting) demands and to maintain or repair their legitimacy in complex and heterogeneous global environments, corporations engage in deliberation processes with stakeholders and civil society groups in which the acceptability of the corporate behaviour is discussed and solutions to the externalities of corporate strategies are developed (Scherer & Palazzo, 2007, 2011; Scherer, Palazzo, & Seidl, 2013). In corporate practice, such deliberative processes can take the form of “stakeholder dialogues” (e.g., Social Accounting SA 8000; PUMA’s “Talks at Banz”) (Gilbert & Rasche, 2007; Roloff, 2008; Unerman & Bennett, 2004). A central assumption in corresponding literature of organization theory and business ethics is that, besides allowing firms to learn about and handle various demands, deliberations of MNC representatives and stakeholders generally lead to an increase in perceived legitimacy, defined as a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 574). This assumption is also referred to as the “legitimation-as-deliberation” hypothesis and has not been empirically tested so far (Palazzo & Scherer, 2006). The paper at hand is the first to address this apparent gap and puts the “legitimation-as-deliberation” hypothesis to the test.

To do so, we conducted an experimental study with 293 participants from the German speaking part of Switzerland that combined the common features of face-to-face deliberation studies (cf. Carpini, Cook, & Jacobs, 2004; Fishkin, 2009; Fishkin & Luskin, 2005; Ryfe, 2005; Thompson, 2008) with experimental methods. Following the established literature on deliberative democracy we define deliberation as “debate and discussion aimed at producing reasonable, well-informed opinions in which participants are willing to revise preferences in light of discussion, new information, and claims made by fellow participants” (Chambers, 2003: 309). We let study participants discuss a case of a controversial business practice in small groups either with or without representatives of the business and/or its critics and assess the perceived legitimacy of both the practice and the organization engaging in it. Our experimental design, which includes a random assignment of treatments and builds on methods commonly applied in experimental research, thereby allows for causal inference of potential effects of deliberation. Since existing research on deliberation is usually lacking random assignment and is only quasi-experimental (Karpowitz & Mendelberg, 2011), our approach provides an important contribution to the literature. Furthermore, we advance legitimacy research by showing how deliberations and the conditions under which deliberations take place affect the legitimacy perceptions of individuals. We explore a process individual judgement formation of which our knowledge is severely lacking to date (see critically, Bitektine, 2011; Bitektine & Haack, 2015; Tost, 2011).

### **Research Context**

As case for the discussion and context of the study, we chose the topic of *corporate tax avoidance* (Avi-Yonah, 2014; Dharmapala, 2014; Hanlon & Heitzman, 2010) and the facilitating role of the four largest accounting and tax consulting firms Deloitte, EY, PwC, and KPMG – commonly referred to as the “Big

Four” (Addison & Mueller, 2015; Sikka & Willmott, 2013). Corporate tax avoidance (or tax optimization which we use synonymously) can be defined as the corporate practice of applying legal means or exploiting tax loopholes to reduce the amount of tax (Dowling, 2014). These practices involve measures such as transfer-pricing, profit-shifting, or rulings that are negotiated by the corporations with the tax authorities. We based the topic selection on five criteria: (1) controversy, (2) relevance, (3) ambiguity, (4) debatability, (5) salience.

- (1) Controversy: As noted above, the topic should involve a controversial business conduct. That is, the practice itself as well as the organizations engaging in it, should be publicly contested to allow for joining an existing (still open) debate with pro and cons (and representatives of both sides) (see e.g., Dryzek & Pickering, 2017; Min, 2015).
- (2) Relevance: The topic should be relevant in the sense that it provides incentives for both the organizations engaging in the addressed practice and the stakeholders (or civil society for the case of study participants) to engage in a common dialogue (see e.g., Fast, 2013). Relevance naturally coincides with the degree of controversy. The incentive of the civil society to engage in a dialogue is given by the public interest in the issue, which is required to attract public attention and initiate a debate in the first place. Also, the more controversial a business practice, the more at risk an organization’s legitimacy that engages in it. Therefore, also the incentive of a business to engage in the dialogue should increase in the degree of controversy in order to justify its actions or to find ways to remain socially accepted.
- (3) Ambiguity: The topic should involve some ambiguity rather than featuring an obvious, clear-cut problem and solution, allowing for different opinions and suggestions with regards to what the problem is and how a solution may look like (see Dryzek & Pickering, 2017; Head & Alford, 2015).
- (4) Debatability: The topic should be debatable, meaning it should not be too abstract or complicated, allowing participants to discuss the main issues and form a personal opinion based on layman experience and occasional readings (see Dryzek, 2009).
- (5) Salience: Although the topic should be of public interest, it should not be too salient. If the topic already received high attention in the media and by the public, most people might have already taken a well-informed position and deliberation will not lead to significant changes (see Farrar et al., 2010).

According to these criteria, the context of the Big Four and corporate tax avoidance perfectly fits the purpose. The practice of corporate tax optimization has come more and more under public scrutiny after media reports on several multinational corporations paying hardly any taxes received much attention (e.g., BBC, 2012; Metzler, 2013). While the focus of the news media in Switzerland was largely focused on tax optimizing multinational corporations such as Apple, Google, and Starbucks, several news outlets especially in the UK and Australia also began to target and critically discuss the role of tax accounting firms, especially the Big Four (e.g., Hudson, Chavkin, & Mos, 2014; Syal, 2015; Toynebee,

2013). They refer to the Big Four as facilitators, enablers, or even “masterminds” of multinational tax avoidance, being the architects of tax schemes which cost governments and their taxpayers more than \$US 1 trillion a year (e.g., West, 2016). Clearly, the topic is controversial and of high relevance (Addison & Mueller, 2015; Dowling, 2014; Sikka & Willmott, 2010, 2013). Since the role of the Big Four in tax avoidance is hardly addressed by the Swiss media, the salience is not too high and participants can be expected to not hold fully-informed positions *ex ante*. Although the topic is fairly complex and allows for various viewpoints, the key issues and arguments of critics and advocates of corporate tax optimization and the role of the Big Four can easily be understood and discussed; making it as well a debatable and ambiguous topic.

### **Research Design**

The experiment took place at two consecutive afternoons at the end of January 2017 at the University of Zurich with 293 participants (165 male, 128 female), who were mainly students (except for 16 subjects) with a mean age of 25.3 years. The experimental sessions lasted 105 minutes and participants were paid 80 CHF.

Figure 1 illustrates the study procedure. Participants were recruited via email (central email distribution service of the university), online marketplaces, student forums and Facebook groups. The participants could sign up for one out of ten time slots (sessions). Before signing up, subjects learned about the topic of the study (corporate tax avoidance and the role of the Big Four), that they would receive information material about the topic on spot and would have to discuss the topic in small groups consequently. Thus, similar to real stakeholder dialogues, participants could be expected to be somewhat interested in the topic.

[Insert Figure 1 about here.]

The experiment consisted of two parts. During the first part, participants received information material on the topic and filled out a first questionnaire after reading the material.<sup>1</sup> The information material contained an introduction to the topic, a balanced number of arguments in favor and against corporate tax optimization, a summary of the main points of criticism about the role of the Big Four as well as respective counterarguments by proponents of the Big Four, and three open questions for the group discussion in the second part of the experiment: (1) “Is corporate tax optimization problematic or desirable?”, (2) “Who is responsible for the consequences of tax optimization (e.g., consultants, clients

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<sup>1</sup> The information material was based on an extensive analysis of scientific and media sources and was prepared in collaboration with Big Four and NGO representatives. It aimed to inform the test persons on the matter in a neutral way. To ensure that participants read the information material and understood some key aspects before taking the questionnaire, they had to answer two control questions correctly before they were handed the questionnaire. The control questions included the definition of the term “tax optimization”.

or states)”, and (3) “How do you evaluate the criticism of the Big Four?”. During the second part, participants discussed these questions in small groups of seven test persons in separate rooms for 45 minutes and answered a second questionnaire afterwards. Depending on the treatment, the discussion groups were or were not joined by representatives of the Big Four and/or of its critics (i.e., a critical NGO). The discussion groups as well as the treatments were randomly assigned by letting participants pick cards with imprinted room numbers (“room cards”) at the beginning of the experiment, determining in which room the second part of the experiment would take place for them. Participants were not aware that the different discussion groups had different treatment conditions.

[Insert Figure 2 about here.]

Figure 2 gives an overview of the treatment groups. There were five different simultaneous treatments (i.e., rooms) in each session: *control condition*, *firm condition*, *NGO condition*, *mixed condition*, and *wait condition*. The first four conditions (discussion treatments) only varied in the presence of external experts during the discussion. The number of participants in the discussion groups was fixed at seven.<sup>2</sup> In the “control condition” the group of seven participants was not joined by an expert. In the “firm condition” the participants were joined by a representative of the Big Four (an employee of the Big Four firm that collaborated with us for the experimental study). In the “NGO condition” the participants were joined by a representative of the critics of the Big Four (a member of a Swiss NGO that is critical of tax avoidance). In the “mixed condition”, the participants were joined by both a representative of the Big Four and of its critics. The “wait condition” was a treatment without discussion. Participants assigned to this condition just waited for 45 minutes in a separate room, instead of discussing the topic for 45 minutes in small groups, fill out the second questionnaire and get paid afterwards. While this condition allows checking whether the time passed (and the time to think about the topic) alone – rather than the discussion – leads to systematic changes in opinions on the topic, it also fulfilled a pragmatic purpose. Since we wanted to ensure that all groups in the four discussion treatments consist of seven participants, we recruited an additional three participants per session to account for potential no-shows (31 instead of 28). If more than the needed 28 participants in a session showed up, we added the corresponding number of room cards corresponding to the wait condition when assigning treatments.<sup>3</sup>

Each of the four discussion groups in a session was joined by a neutral moderator who managed the process of discussion, but did not take part in terms of content. The moderators were all research assistants at the department of business administration and were instructed to take care that the rules of

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<sup>2</sup> The group sizes in deliberation studies vary between 7 and 25 participants (Mansbridge, Hartz-Karp, Amengual, & Gastil, 2006). We decided to implement the lower end of the spectrum for reasons of efficiency, as one discussion group represents only one independent observation in our main analysis.

<sup>3</sup> In one session there were less than 28 participants, such that there were only two participants discussing in the control condition. We deleted this group from the analysis and recruited new participants to repeat the control condition of this session a week later. All effects are robust when repeating the analyses with the full sample or without the extra session we conducted a week later (the effects are even slightly more pronounced in these cases).

the discussion were adhered to. The rules of discussion were based on those applied in deliberative polling (Fishkin & Luskin, 2005) and should help that the conditions of the discussion approximate the “ideal speech situation”<sup>4</sup> (see Habermas, 1984), which is supposed to support the positive effects of deliberation. The discussion was basically led as a free conversation among the participants, whereby the moderator was managing the time, opened and closed the discussion questions included in the information material and made sure that nobody talks too much and everyone gets to talk a little. To properly incorporate the experts, who were present in some treatments, they were asked to hold an introductory statement of 1.5-2 minutes for each question. If two experts were present, both got to make an introductory statement for each question in alternating order (between questions). Since the participants discussed simultaneously in the different treatment groups two representatives of the Big Four and two representatives of its critics needed to be present. The representatives varied between the two days of study for both parties, such that a total of four representatives of the Big Four and four representatives of its critics participated in the study. To ensure that the content was more or less the same within a group of representatives, they were asked to prepare common introductory statements and to discuss the questions listed in the information material in their team upfront to agree on a joint line of argumentation. To support a coherent perception of representatives of either team, the moderators introduced them to the discussion groups using prepared descriptions that were scripted to be much alike. Since individual differences between representatives of either team cannot be ruled out, the representatives switched treatments between sessions to counterbalance potential effects resulting from such individual differences. Also moderators were switching treatments between sessions to counterbalance all kinds of potentially occurring interdependencies. Between the two days of study, even the rooms were assigned to new treatments to ensure that potential effects of a treatment are not contingent on spatial features. Table 1 shows the assignment of representatives and moderators to treatments.

[Insert Table 1 about here.]

The discussions were videotaped to be able to infer reasons for remarkable differences that still might have occurred within treatments or to control for other factors that might have influenced the results.<sup>5</sup> The moderators closed the discussions after 45 minutes, asked the potentially present experts to leave the room and asked participants to fill out the second questionnaire. When participants finished the questionnaire, the experiment was completed and they were directed to the payout station, where they received their payment of 80 CHF.

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<sup>4</sup> Habermas (1984: 177–178) has defined four basic rules that have to be met in an “ideal speech situation”: (i) every potentially affected individual is allowed to take part, (ii) everyone is allowed to introduce and justify any assertion or to question assertions and reasons of others, (iii) every participant is allowed to express their attitudes, desires and needs and (iv) there are no sources of (internal or external) coercion.

<sup>5</sup> We are also able to link the video material of the participants to their questionnaires thanks to imprinting fixed seat numbers on the questionnaires.

The experiment was carefully planned such that participants did not learn about the potential presence of experts in the discussions to prevent experimenter demand effects or potential frustration if learning that others are discussing with experts that are not present in their own group. Also, at the end of the experiment participants learnt about a voluntary follow-up survey taking place a week later and that they should not speak to participants of other discussion groups until taking the survey. The survey was mainly intended to test for longevity of potential treatment effects.

To check for treatment effects, the study used a difference-in-differences design, comparing the within-subjects observed changes in opinions between the first and the second questionnaire between participants of different treatments.

To assess our main dependent variable, the perceived legitimacy of the Big Four and the practice of corporate tax avoidance, we constructed our own legitimacy scale based on the definition of legitimacy by Suchman who defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (1995: 574). Although there exist different measures of legitimacy in the literature, they are either context-dependent and not suitable for the context at hand (e.g., Thomas & Lamm, 2012) or seem to confound the multiple dimensions of legitimacy identified by Suchman (e.g., Foreman & Whetten, 2002).

To create our own scale that can be used to assess both the legitimacy of the Big Four as an organization and corporate tax evasion as a practice, we formulated a series of items in relation to the three dimensions of legitimacy according to Suchman (1995) – pragmatic legitimacy (is it beneficial?), cognitive legitimacy (is it taken for granted?), moral legitimacy (is it the right thing to do?) – and tested them in an online survey. The survey was conducted between December 20<sup>th</sup> and January 4<sup>th</sup> with 32 participants (12 males and 20 females), who were mainly students (except two subjects) from Switzerland with mean age of 23.6 years – a sample with similar characteristics to the sample of the main experiment.<sup>6</sup> We based the item selection on two criteria: (1) a high correlation of the item with an overall measure for legitimacy and (2) a high Cronbach’s alpha of the items within a legitimacy dimension. The overall measure for legitimacy consisted of a compound measure of the participants’ indicated agreement with the two items “I think [tax optimization is]/[the Big Four and their actions are] legitimate and appropriate” and “I think [tax optimization is]/[the Big Four and their actions are] are illegitimate and inappropriate”. All items were rated on an 11-point Likert scale (-5=totally disagree, 0=neither agree nor disagree, +5=totally agree). The finally selected items for our legitimacy scale are listed in Table 2, separated by the dimension of legitimacy. To combine all dimensions of legitimacy into a single meas-

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<sup>6</sup> To provide an incentive for participation in the survey, it was announced that three randomly drawn participants would win 100 CHF.



ure, they were averaged and weighted by their explanatory power on the just mentioned two-item compound measure for overall legitimacy. Thus, the more important a (sub)dimension for the overall impression of legitimacy, the more weight it is given. The resulting weights are also shown by Table 2.<sup>7</sup>

[Insert Table 2 about here.]

### **Hypotheses**

Our main hypotheses about the treatment effects are contingent on the valence of arguments which are brought forward by the representatives. The arguments of the representatives can be expected to particularly affect the deliberative outcome for two reasons: firstly, because of the increased salience due to their role as representatives of either the Big Four or its critics and, secondly, because they possess expert knowledge on the case at hand and correspondingly their arguments can be expected to be of high quality and therefore persuasive. We are particularly interested in the “marginal effect” of representatives – meaning the effect of deliberating with one or more representatives in comparison to deliberating without representative. Hence, the control condition serves as baseline for the following hypotheses:

- H1: The change in perceived legitimacy in the firm condition is more positive than in the control condition (= positive marginal effect).
- H2: The change in perceived legitimacy in the NGO condition is more negative than in the control condition (= negative marginal effect).
- H3: The direction of the effect in the mixed condition depends on whether arguments of the firm or NGO representative were perceived as more convincing.
  - H3a: If the firm representative was perceived as more convincing (“mixed adv. firm”), the change in perceived legitimacy is more positive (= positive marginal effect).
  - H3b: If the NGO representative was perceived as more convincing (“mixed adv. NGO”), the change in perceived legitimacy is more negative (= negative marginal effect).
  - H3c: If the firm and NGO representative were perceived as equally convincing (“mixed tie”), the change in perceived legitimacy is similar to the Control Condition (= no marginal effect).

Since the Big Four representatives argue in favor of the organization and their practices, the expert opinion in the firm condition is likely to affect the perceived legitimacy positively (H1). Since the NGO representatives argue against the practice of tax optimization and criticize the Big Four, the expert opinion in the NGO condition is likely to affect the perceived legitimacy negatively (H2). In the mixed

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<sup>7</sup> The two-item compound measure was also incorporated in the final scale (cf. “overall legitimacy” in Table 2). Its weight was determined by its variation that was left unexplained by the other dimensions (i.e., 1 - adj. R<sup>2</sup> in a corresponding regression). In this way, it is supposed to account for the part of perceived legitimacy that is not fully captured by the dimensions defined by Suchman (2005).

condition, where both types of representatives are present, we expect that the effects on legitimacy crucially depend on which representative participants perceived more convincing (H3). This is in line with deliberative theory, suggesting that deliberation participants test their views in the deliberative process based on the quality of exchanged arguments (e.g., Habermas, 1996; Manin, 1987).

## Results

Figure 3 and 4 summarize the outcomes of each treatment. The figures show the individual changes in perceived legitimacy of the Big Four (Figure 3) and tax optimization (Figure 4) as well as the overall means separated by treatments. The blue lines show positive changes in legitimacy and the red lines negative ones. The changes in perceived legitimacy are thereby measured by our legitimacy scale (cf. Table 2). For comparisons between treatments, we treat each discussion group and each participant in the wait condition as one independent observation (cf.  $n$  in Figure 3, 4). In line with our hypotheses, the observations for mixed condition were split up depending on whose arguments the participants thought were more convincing: those of the firm representative (cf. “mixed adv. firm”), those of the NGO representative (cf. “mixed adv. NGO”), or both equally (cf. “mixed tie”).<sup>8</sup> In total, 18 participants (26%) thought the firm representative was more convincing, 40 participants (57%) were more convinced by the NGO representative and 12 participants (17%) perceived both as equally convincing.

[Insert Figure 3 and 4 about here.]

The results are much in line with our hypotheses. The presence of a firm representative in the firm condition tends to improve the perceived legitimacy, whereas the presence of a NGO representative in the NGO condition leads to a decrease in perceived legitimacy. The pattern in the mixed condition, as expected, critically hinged on which representative was perceived as more convincing. In fact, the effects of the mixed condition do not significantly differ from those of the firm condition for the participants that perceived the arguments of the firm representative as relatively more convincing (“mixed adv. firm”). Analogously, the effects of the NGO condition are in line with the observed changes for participants in the mixed condition perceived the NGO representative as more convincing (“mixed adv. NGO”).<sup>9</sup> The results for the participants that perceived both representatives as equally (“mixed tie”) convincing did not significantly differ from the control condition regarding the legitimacy of the Big Four and resemble the NGO condition for the legitimacy of the tax optimization.

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<sup>8</sup> The corresponding control question in the second questionnaire read: “Whose arguments were more convincing, those of the employee of [name of the company] (Big Four) or the arguments of the member of [name of the NGO] (critics)”, which was rated on an 11-point scale (0=NGO, 5=both equally, 10=Big Four).

<sup>9</sup> Additional analyses showed that the NGO condition and the “pro NGO” participants in the mixed condition only differ significantly (5% level) in perceived legitimacy for the dimension of taken-for-grantedness (the latter being higher on average).

The wait condition also does not differ in statistically significant terms from the control condition. This means that discussing the topic with other participants did not lead to systematic changes compared to just waiting instead. As most participants were not very familiar with the topic before the experiment, the discussion among participants alone might not have led to significant new insights that go beyond the arguments already raised in the information material. The comments of participants in the control condition during the debriefing are in line with this reasoning. Yet it should be noted that the discussion in the control condition led to a decrease in legitimacy of the Big Four (significantly different from zero), not so for tax optimization. It seems that discussing the pros and cons contained in the information material regarding the Big Four led to an even higher agreement with the cons, whereas the result of discussing pros and cons of tax optimization was more balanced.

[Insert Table 3 and 4 about here.]

There are some further interesting insights. Although the effects go in the expected direction, the presence of a firm representative, or his relative performance in the mixed condition respectively, had a stronger influence on the perceived legitimacy of the Big Four (i.e., the organization) and not so much on the perceived legitimacy of tax optimization (i.e., the practice). The NGO representative, in contrast, was more decisive for the perceived legitimacy of the practice than of the organization. Accordingly, the perceived legitimacy of the Big Four significantly increased in the firm condition as well as for the participants in the mixed condition that indicated the firm's arguments as more convincing. The perceived legitimacy of tax optimization, on the other hand, significantly decreased in the NGO condition and among participants in the mixed condition that perceived NGO representative as more or as equally convincing. The regressions in Table 3 and 4 show these marginal effects of representatives (i.e., treatment effects in comparison to the control condition) and how they relate to the different dimensions of legitimacy. Table 3 holds that the effects resulting from the firm representative's presence are mainly driven by the dimension of moral legitimacy, taken-for-grantedness and the overall measure. The effects of the NGO representative on perceived legitimacy of the practice draw from several dimensions but mainly stem from affecting moral and pragmatic legitimacy, as can be seen in Table 4. In comparison to firm representatives, the NGO representatives apparently affect the dimension of pragmatic legitimacy much more (i.e., whether the organization or practice provides a benefit and is responsive to the society, economy etc.).

[Insert Figure 5 and 6 about here.]

The above described pattern of results – i.e., the importance of the firm representative for the (increase in) legitimacy of the organization (Big Four) vs. the NGO representative for the (decrease in) legitimacy of the practice (tax optimization) and the decisiveness of the relative persuasiveness of the

representatives for the direction of effects in the mixed condition – becomes even clearer when looking at explicit changes in opinion. Here, participants were asked explicitly to indicate whether their opinion regarding the Big Four or tax optimization had changed during the discussion and by what extent on an 11-point scale (-5=worse, 0=same, +5=improved). Figure 5 and 6 again display the overall pattern and Table 5 contains regression analyses comparing both the frequency of opinion changes and their extent between treatments. The fact that the main findings are even a bit more pronounced in these explicit measures of changes in opinion, provide strong evidence for our hypotheses and the basic idea of deliberative theory. It not only suggests that the observed differences in perceived legitimacy are the result of a deliberate change or formation of a more informed opinion as a result of deliberation, but also that the persuasiveness of exchanged arguments, especially of the key representative actors, play a critical role in this process.

[Insert Figure 7 about here.]

Figure 7 shows an overview of the treatment effects in comparison to the control condition (i.e., marginal effects of representatives) on both the legitimacy of the organization and the practice and for both types of measures (implicitly via scale as well as explicitly via direct question about change). This figure not only shows at one glance that all of our hypotheses were confirmed, but it depicts two further results.

First, it shows nicely, as argued above, that the firm representative is relatively more important for the perception of the organization and the NGO representative for the perception of the practice – which becomes obvious by comparing the relative sizes of the two bars for the respective treatments. The relative importance of representatives also shows when looking at the mixed condition as a whole, whereby the marginal effect on the organization tends to be positive and the marginal effect on the practice tends to be negative. Second, while the marginal effect of a representative on the explicit measure gets clearly more pronounced in the subgroups of the mixed conditions (mixed adv. firm / mixed adv. NGO) compared to the corresponding single condition (firm / NGO), the reverse tends to be the case for the implicit measure of opinion change via legitimacy scale. This could be explained as follows. While participants in the subgroups of the mixed conditions heard proponents of both sides and deliberately indicated that one of them was more convincing, it seems only reasonable that they also tend to explicitly express a change in opinion in a corresponding direction more clearly – as compared to a situation where they only hear a proponent of one side and might have not been convinced at all. However, exactly because in mixed condition subgroups the test persons heard both sides of the story, the implicit measures of legitimacy show more balanced changes compared to the single conditions where participants either only got all negative or all positive arguments of an expert.

[Insert Table 6 about here.]

But are there variables that predict whether a participant will find the representative of the firm or of the NGO more convincing? A logistic regression of the chance that a participant in the mixed condition will more appeal to the argumentation of the firm rather than the NGO representative, shown by Table 6, capture the two best predictors in our dataset: the participant's political position and initial position towards the Big Four (indicated in the questionnaire before the discussion). The less leftist or more rightist a participant's own political position and the less critical or more favourable the participant's position towards the Big Four, the more likely the participant will perceive the firm representative as more persuasive than the NGO representative. Given the coefficients in Table 6, there is already a more than 70% chance that a participant will perceive the firm representative as more persuasive if the participant is for example both only slightly rightist (min. value 1) and only slightly pro Big Four (min. value 1). But this was the case for only a small fraction of participants. As can also be seen in Figure 3 and 4, the most participants were initially rather critical towards the Big Four (as well as towards tax optimization). It is important to stress that the treatment effects for the mixed condition subgroups (mixed adv. firm/NGO) stay significant when controlling for those predicting variables. Hence, which representative is perceived as more convincing as well as the corresponding marginal effects are not due to exogeneous differences in individuals but are endogenous and depend on deliberation itself.

[Insert Figure 8 about here.]

Besides relative persuasiveness, participants in both the mixed and the single treatment conditions featuring representatives rated the representatives based on expertise, sympathy, persuasiveness in general, openness towards counter-arguments, and whether the participant was positively surprised of the representative's presence in the discussion. Figure 8 shows the results of these ratings, depending on the treatment (single vs. mixed). Interestingly, participants tended to be slightly more positively surprised by the presence of a critical member of an NGO than of an employee of a Big Four firm, which they have just read critically about. The NGO representatives were generally more favourably rated. It seems interesting that the rating of the firm representative seems to be better in the mixed than in the single treatment condition, while it is the other way around for the NGO representative.

Two plausible reasons come to mind: First, if participants are surprised by a firm representative without knowing of the potential presence of NGO representatives in other discussion groups, it could seem like the study was set up for the firm representatives just to promote themselves – which could be viewed as negative. In contrast, if only a NGO representative awaits the group – who does not have an obvious direct benefit by participating in the discussion – the presence could be more honoured (cf. Figure 7). Secondly, if both a firm and an NGO representative are present, this could on the one hand signal, that the firm is actually willing to engage in a critically discussion with a critical counterpart – which could alleviate the negative perception of self-promotion. On the other hand, the presence of the NGO representative is not as positively valued as in the single representative condition, maybe because

now also the NGO representative has some sort of self-beneficial incentive to engage in the discussion (i.e., to “face the enemy”).

### **Discussion**

Overall, the experiment indicates that in order for deliberative processes to have legitimizing effects, it is not enough for a corporation to just enter the process, but their representatives need to provide the better arguments than their counterparts. Interestingly, our results suggest that legitimacy perceptions of a controversial practice and an organization, which is engaging in it, are somewhat separable. The firm representative and his relative performance was thereby more decisive for the legitimacy of the organization than the practice, and vice versa for the NGO representative. The strongest effects (also in terms of longevity) were observed in discussions with a firm representative only, on the perceived legitimacy of the organization. In terms of legitimacy of the organization, entering deliberative processes seems (on average) risk-free for a firm. The presence of a firm representative was overall affecting the organization’s legitimacy either positively or not at all (if the firm representative was less convincing in the mixed setting). In terms of legitimacy of the practice, however, the presence of a firm representative could backfire if the arguments are not convincing. Here, the presence of the representative had (on average) either no effect or was negative (if the firm representative was less convincing in the mixed setting). Considering that only about 26% of the participants perceived the arguments of the firm representatives as more convincing in the mixed setting, entering a public discourse involving critical experts is therefore risky when it comes to the legitimacy of the practice. The pattern is exactly reversed for the NGO representatives. Their presence affects the legitimacy of the practice negatively at best and the legitimacy of the organization positively at best. Given that NGOs try to delegitimize an organization or its practice, for them it could thus be “risky” to enter a deliberative process when their main goal would be to delegitimize the organization rather than its practice.

Although it is unclear whether the results of this experiment extend to other contexts, at least for the legitimacy perceptions in the field of tax avoidance our results suggest that a firm should consider entering the public discourse if the legitimacy of its own organization is at stake rather than just trying to legitimize their practice of corporate tax avoidance – since the latter could do more harm than good.

### **Conclusion**

Our study provides insights on the conditions under which deliberations will lead to an increase or decrease of social acceptance (legitimacy) of problematic practices and the involved organizations. We will deeply explore the underlying mechanisms in order to develop a general theory on deliberative legitimation and delegitimation. Unlike the deliberation studies in the political sciences (cf. Carpini et al., 2004; Fishkin, 2009; Fishkin & Luskin, 2005; Ryfe, 2005; Thompson, 2008), we applied a real experimental design with a control group and various treatment groups that allows us to systematically compare the effects and infer causality. In particular, we explore the effects of the composition of the

discourse participants and the role of their arguments, and measure how these affect the social acceptance of the incriminated practice and the involved organizations in the context at hand. The study has also practical implications as the theory will inform both firms and critical NGOs about their legitimacy strategies and the conditions under which these strategies will deliver the desired results.

Figure 1 – Study Procedure

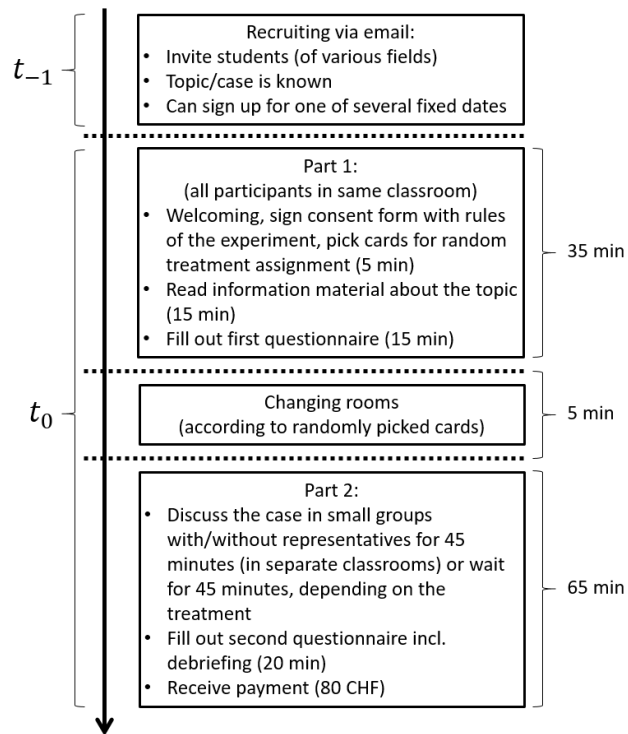
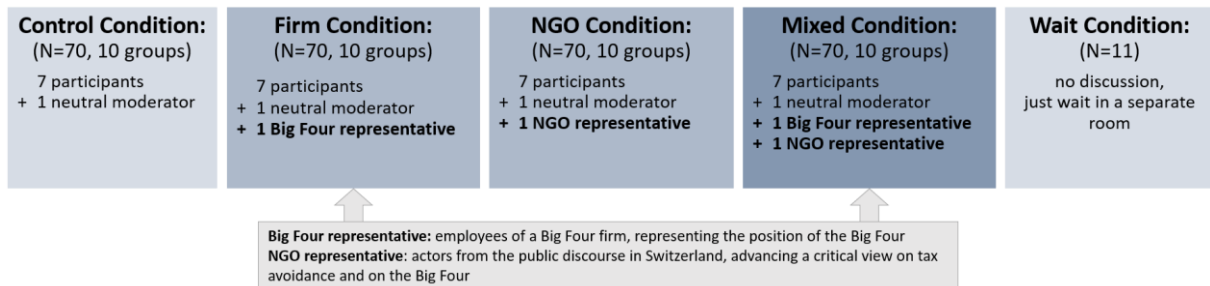


Figure 2 – Treatment Overview





*Table 1 – Assignment of Representatives and Moderators to Treatments*

Day 1 (30.01.2017)				
Treatment	Control	Firm	NGO	Mixed
Room	E-27	E-08	E-21	E-12
Session #1	M1	M2 F1	M3 N1	M4 F2 N2 f
Session #2	M4	M3 F2	M2 N2	M1 F1 N1 n
Session #3	M3	M4 F1	M1 N2	M2 F2 N1 f
Session #4	M2	M1 F2	M4 N1	M3 F1 N2 f
Session #5	M1	M2 F1	M3 N1	M4 F2 N2 n
Day 2 (31.01.2017)				
Room	E-12	E-21	E-08	E-27
Session #6	M3	M4 F4	M1 N4	M2 F3 N3 n
Session #7	M2	M1 F3	M4 N3	M3 F4 N4 f
Session #8	M4	M3 F3	M2 N4	M1 F4 N3 n
Session #9	M1	M2 F4	M3 N3	M4 F3 N4 n
Session #10	M3	M4 F4	M1 N4	M2 F3 N3 f

*M1-M4: Moderators*

*F1-F4: Representatives of the Big Four (employees of a Big Four)*

*N1-N4: Representatives of critics of the Big Four (members of a Swiss NGO)*

*f or n: F (firm) or n (NGO) indicates who starts with introductory statement at the first question*

*Note: The representatives and moderators are arranged such that each moderator encounters each representative at least once, each representative takes part in each treatment at least twice, each moderator switches treatment after each session and chairs each treatment at least once per day, the combinations in the first session of the day is repeated in the last session of the day to control for learning effects, the order of introductory statements is reversed between days and the treatment-room combinations are rotated between days.*

Table 2 – Legitimacy Scale

Dimension			Items	
			Practice (Corporate Tax Optimization)	Organization (Big Four)
<b>Cognitive Legitimacy</b> ( $w_O = 0.24$ ; $w_P = 0.26$ )	Understanding ( $w_O = 0.40$ ; $w_P = 0.41$ )		I am sympathetic about the use of tax optimization. I have no understanding for the use of tax optimization. The use of tax optimization is understandable.	I am sympathetic about the behavior of the Big Four. I have no understanding for the behavior of the Big Four. The behavior of the Big Four is understandable.
	Knowledge ( $w_O = 0.04$ ; $w_P = 0.02$ )		I am familiar with the service of tax optimization. I know a lot about tax optimization.	I am familiar with the Big Four. I know a lot about the Big Four.
	Taken-for-Grantedness ( $w_O = 0.56$ ; $w_P = 0.57$ )		Tax optimization is needed. Tax optimization is a necessary service. The criticism of tax optimization is justified. I agree with the critique of tax optimization.	The Big Four are needed. The Big Four are necessary corporations. The criticism of the Big Four is justified. I agree with the critique of the Big Four.
<b>Moral Legitimacy</b> ( $w_O = 0.30$ ; $w_P = 0.31$ )			Tax optimization is problematic. Tax optimization is appropriate. Tax optimization is desirable. Tax optimization is morally acceptable. Tax optimization is morally reprehensible. Tax optimization is inappropriate.	The behavior of the Big Four is problematic. The Big Four are acting appropriately. The Big Four are acting desirably. The Big Four are acting morally acceptable. The Big Four are acting morally reprehensible. The Big Four are acting inappropriately.
<b>Pragmatic Legitimacy</b> ( $w_O = 0.20$ ; $w_P = 0.22$ )	Economy	Direct Benefit (highly concentrated) ( $w_O = 0.04$ ; $w_P = 0.11$ )	Tax optimization creates good jobs. Tax optimization helps corporations.	The Big Four are good employers. The Big Four are helping corporations.
		Aggregated Benefit (weakly concentrated) ( $w_O = 0.29$ ; $w_P = 0.23$ )	The economy benefits from tax optimization. Tax optimization hurts the economy. Tax optimization hurts competition. Tax optimization is a value-creating service.	The economy benefits from the Big Four. The Big Four hurt the economy. The Big Four hurt competition. The Big Four are value-creating corporations.
	Society ( $w_O = 0.32$ ; $w_P = 0.37$ )		Tax optimization benefits the society. Tax optimization contributes positively to society. Tax optimization hurts the society.	The Big Four benefit the society. The Big Four contribute positively to society. The Big Four hurt the society.
	State ( $w_O = 0.14$ ; $w_P = 0.12$ )		Tax optimization is useful for governments. States benefit from tax optimization. Tax optimization hurts the state.	The Big Four are useful for governments. States benefit from the Big Four. The Big Four hurt the state.
	Responsiveness ( $w_O = 0.21$ ; $w_P = 0.17$ )		Tax optimization is compatible with public interests. Public interests are taken into account when optimizing taxes.	The behavior of the Big Four is compatible with public interests. Public interests are taken into account by the Big Four.
<b>Overall Legitimacy</b> ( $w_O = 0.26$ ; $w_P = 0.21$ )			I think tax optimization is legitimate and appropriate. I think tax optimization is illegitimate and inappropriate.	I think the Big Four and their actions are legitimate and appropriate. I think the Big Four and their actions are illegitimate and inappropriate.

Note: “ $w_O$ ” = weight in the measure for the legitimacy of the *organization*, “ $w_P$ ” = weight in the measure for the legitimacy of the *practice*

Figure 3 – Individual Changes in Perceived Legitimacy of the Big Four

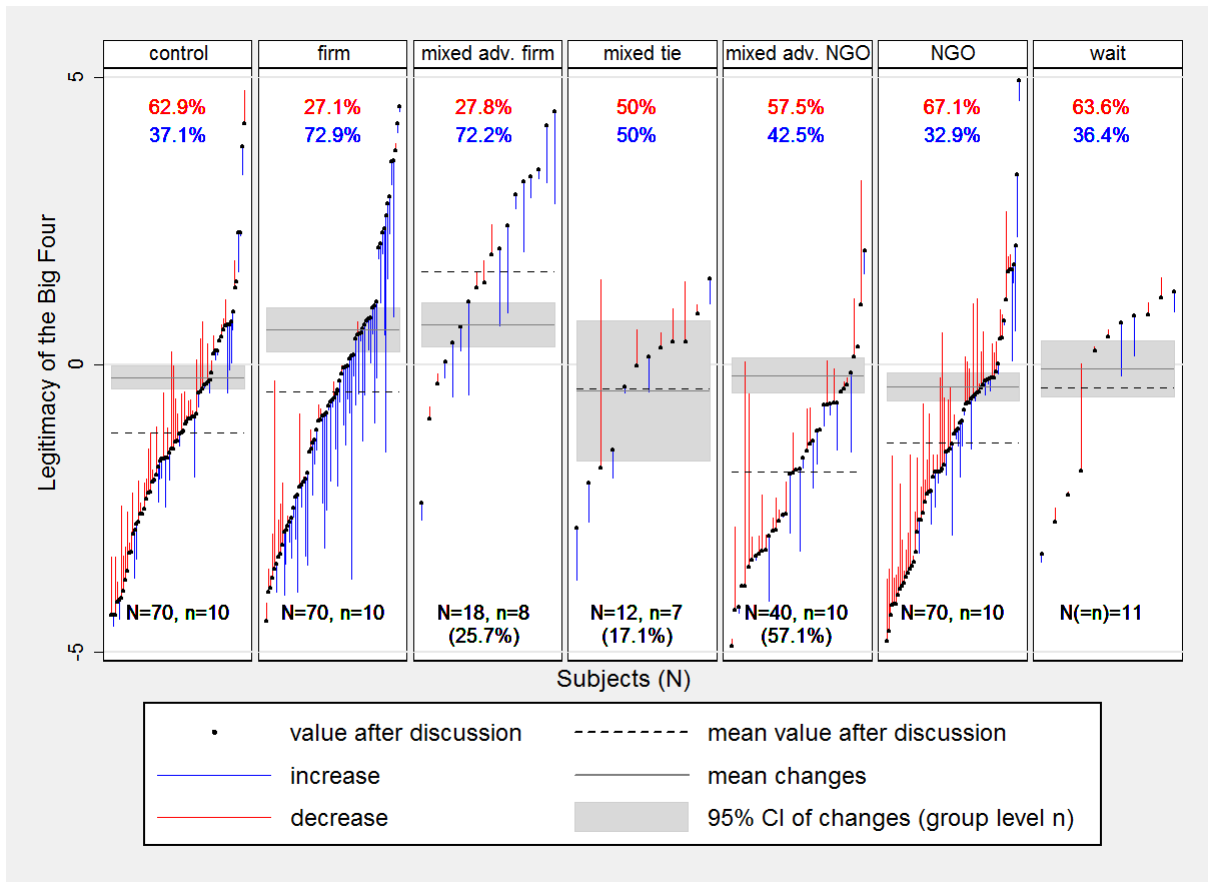


Figure 4 – Individual Changes in Perceived Legitimacy of Tax Optimization

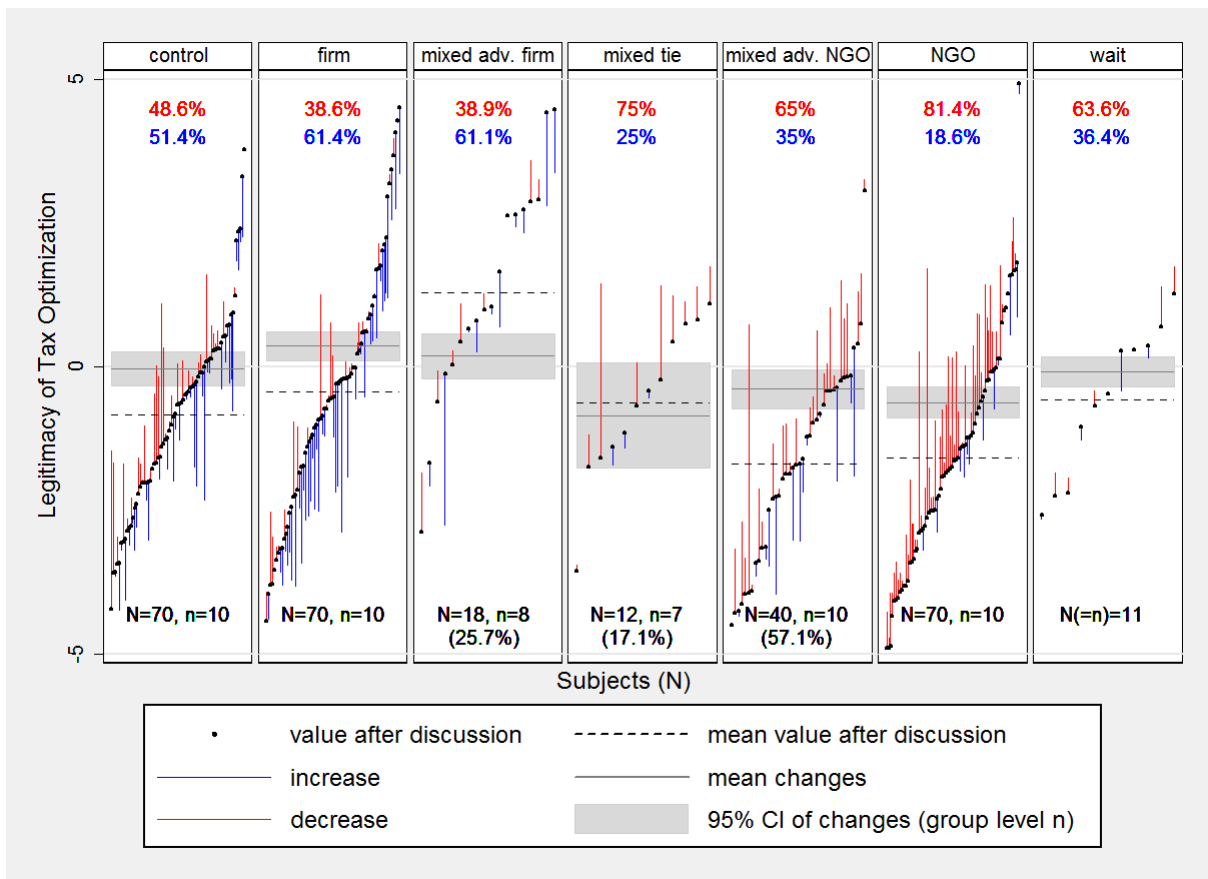


Table 3 – Treatment Effects on Perceived Legitimacy of the Big Four

	cognitive			(4)	(5)	(6)	(7)
	(1) under- standing	(2) knowledge	(3) taken-for- grantedness				
mixed: balanced	-1.087*** (0.002)	0.0167 (0.952)	-0.0702 (0.840)	0.472 (0.448)	-0.227 (0.593)	-0.810 (0.374)	-0.228 (0.648)
mixed: pro ngo	-0.719* (0.062)	0.549 (0.117)	0.339 (0.295)	0.285 (0.264)	-0.230 (0.208)	0.0700 (0.788)	0.0396 (0.807)
mixed: pro firm	-0.283 (0.549)	1.152* (0.066)	1.381** (0.030)	1.255**** (0.000)	0.569 (0.110)	0.999*** (0.003)	0.920**** (0.000)
firm	0.183 (0.505)	0.429 (0.145)	0.968**** (0.000)	1.113**** (0.000)	0.309* (0.094)	1.093**** (0.000)	0.832**** (0.000)
ngo	-0.919**** (0.000)	0.179 (0.498)	0.00476 (0.974)	-0.0424 (0.824)	-0.474*** (0.003)	0.114 (0.685)	-0.164 (0.246)
wait	-0.671 (0.111)	-0.264 (0.511)	0.0656 (0.853)	0.647* (0.084)	0.276 (0.217)	-0.169 (0.709)	0.147 (0.539)
constant (control)	0.262 (0.139)	0.400** (0.014)	-0.543**** (0.000)	-0.238 (0.136)	-0.162 (0.113)	-0.286*** (0.009)	-0.222** (0.015)
<i>N</i>	66	66	66	66	66	66	66

“sum” = average over all legitimacy items

OLS regressions with robust standard errors

*p*-values in parentheses

\* *p* < 0.10, \*\* *p* < 0.05, \*\*\* *p* < 0.01, \*\*\*\* *p* < 0.001

Table 4 – Treatment Effects on Perceived Legitimacy of Tax Optimization

	cognitive			(4)	(5)	(6)	(7)
	(1) under- standing	(2) knowledge	(3) taken-for- grantedness				
mixed: balanced	-1.118* (0.071)	-0.0714 (0.783)	-0.576 (0.131)	-0.736** (0.028)	-0.541 (0.363)	-1.217** (0.045)	-0.808** (0.041)
mixed: pro ngo	-0.765* (0.083)	0.459 (0.144)	0.0487 (0.827)	-0.410 (0.104)	-0.554*** (0.002)	-0.150 (0.658)	-0.353* (0.082)
mixed: pro firm	0.255 (0.600)	0.469 (0.163)	0.633** (0.047)	0.147 (0.517)	0.248 (0.395)	0.00655 (0.981)	0.225 (0.289)
firm	0.564* (0.067)	0.414 (0.167)	0.496** (0.035)	0.398* (0.059)	0.145 (0.468)	0.514 (0.122)	0.399** (0.024)
ngo	-0.326 (0.285)	0.336 (0.213)	-0.539** (0.013)	-0.632*** (0.002)	-0.691*** (0.002)	-0.579* (0.059)	-0.583*** (0.002)
wait	-0.154 (0.727)	-0.341 (0.220)	-0.116 (0.702)	0.0268 (0.897)	-0.0868 (0.695)	-0.0143 (0.968)	-0.0491 (0.783)
constant (control)	-0.421* (0.081)	0.750**** (0.000)	0.0702 (0.706)	0.0217 (0.864)	-0.0670 (0.634)	0.0143 (0.947)	-0.0356 (0.784)
<i>N</i>	66	66	66	66	66	66	66

“sum” = average over all legitimacy items

OLS regressions with robust standard errors

*p*-values in parentheses

\* *p* < 0.10, \*\* *p* < 0.05, \*\*\* *p* < 0.01, \*\*\*\* *p* < 0.001

Figure 5 – Explicit Changes in Opinion about the Big Four

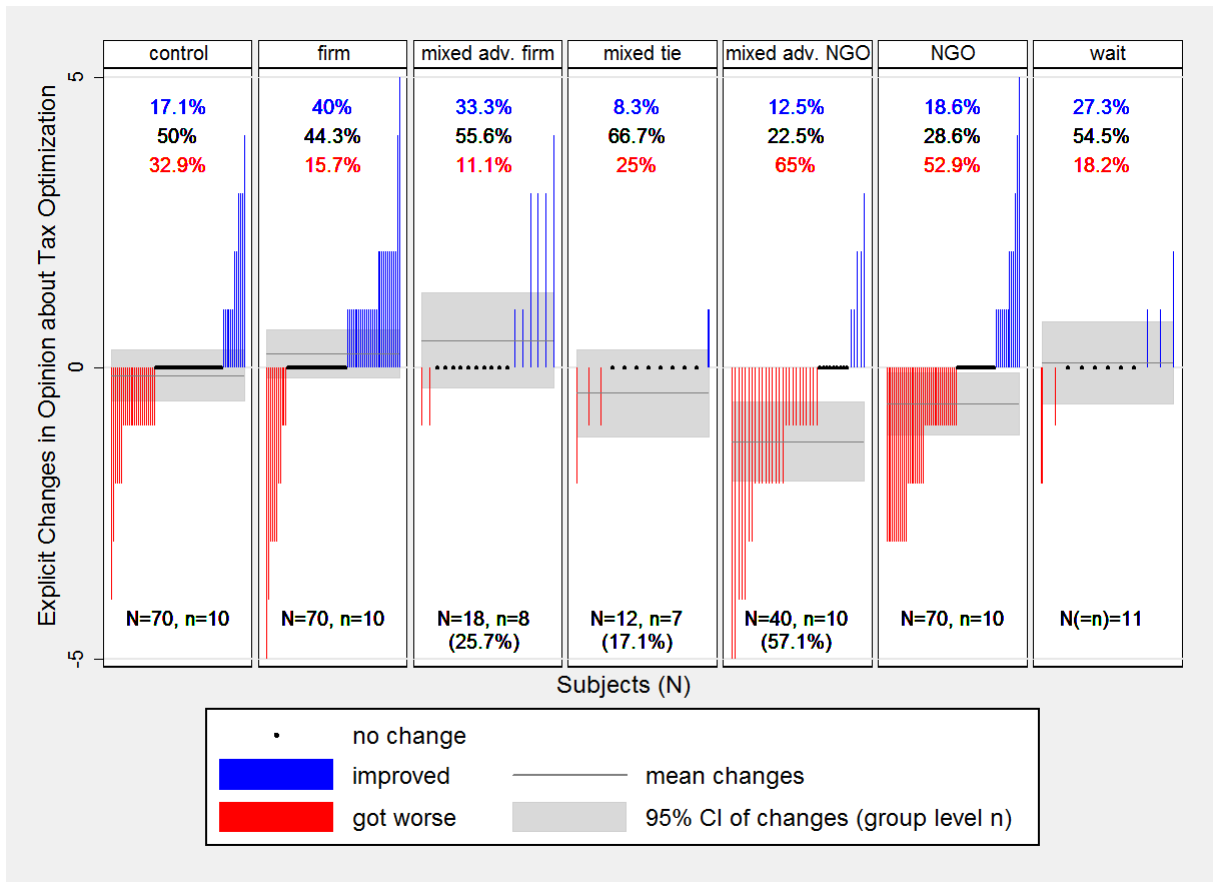


Figure 6 – Explicit Changes in Opinion about Tax Optimization

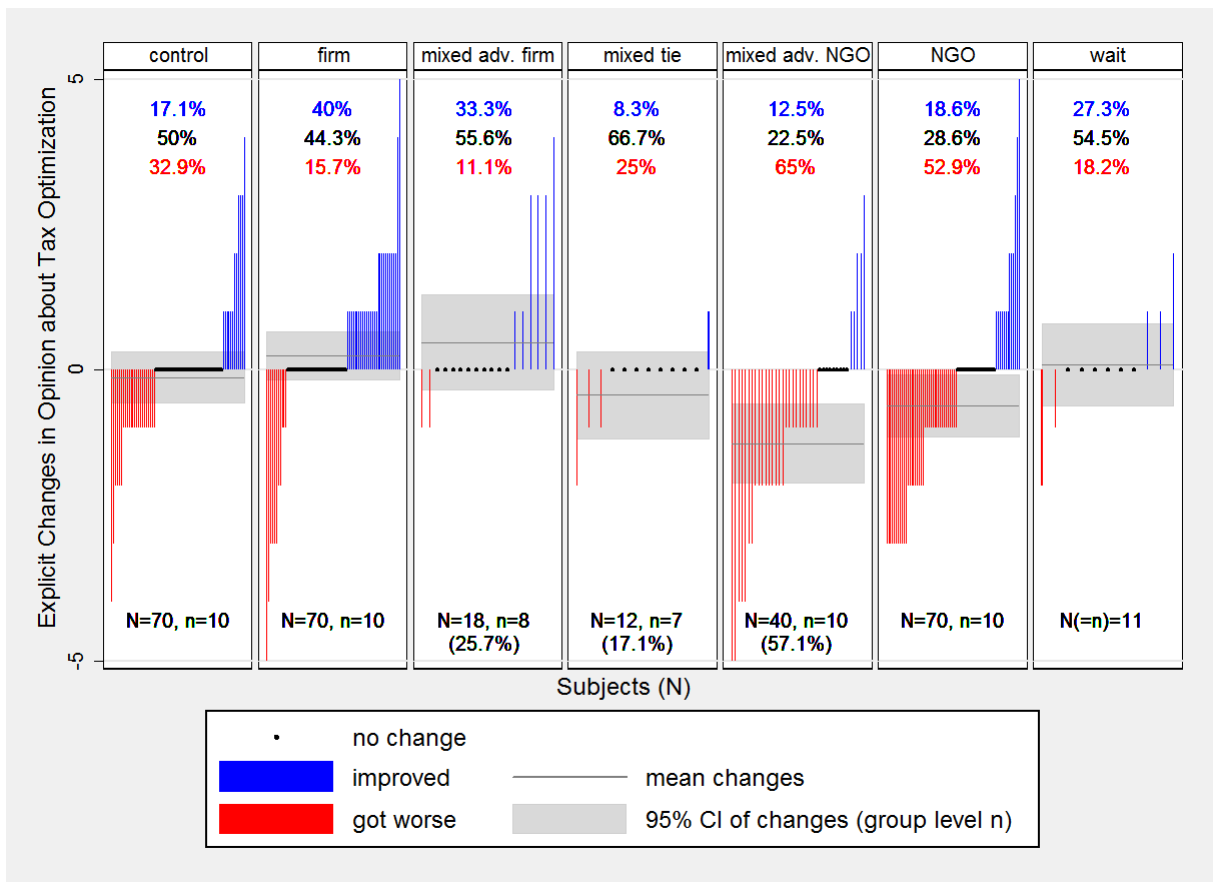


Table 5 – Treatment Effects on Explicitly Expressed Changes in Opinions

	Change in opinion about the Big Four				Change in opinion about Tax Optimization			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	positive	same	negative	extent	positive	same	negative	extent
mixed balanced	0.0571 (0.692)	0.152 (0.424)	-0.210 (0.241)	0.738** (0.027)	-0.124 (0.107)	0.119 (0.519)	0.00476 (0.980)	-0.300 (0.405)
mixed pro NGO	0.0476 (0.658)	-0.158** (0.017)	0.110 (0.256)	-0.358 (0.442)	-0.0395 (0.639)	-0.309*** (0.003)	0.349*** (0.000)	-1.141*** (0.002)
mixed pro firm	0.373*** (0.009)	0.108 (0.383)	-0.480*** (0.000)	1.793*** (0.000)	0.0994 (0.407)	0.0625 (0.657)	-0.162 (0.253)	0.597 (0.135)
firm	0.243*** (0.001)	0.0857 (0.210)	-0.329*** (0.000)	0.771*** (0.003)	0.229*** (0.003)	-0.0571 (0.527)	-0.171** (0.027)	0.371 (0.169)
ngo	0.0143 (0.771)	0.114 (0.134)	-0.129* (0.065)	0.143 (0.487)	0.0143 (0.853)	-0.214** (0.030)	0.200** (0.027)	-0.486 (0.119)
wait	-0.0857*** (0.009)	0.447*** (0.001)	-0.361*** (0.006)	0.747*** (0.000)	0.101 (0.513)	0.0455 (0.798)	-0.147 (0.295)	0.219 (0.558)
constant (control)	0.0857*** (0.009)	0.371*** (0.000)	0.543*** (0.000)	-0.929*** (0.000)	0.171*** (0.006)	0.500*** (0.000)	0.329*** (0.000)	-0.129 (0.513)
<i>N</i>	66	66	66	66	66	66	66	66

OLS regressions with robust standard errors

*p*-values in parentheses

\* *p* < 0.10, \*\* *p* < 0.05, \*\*\* *p* < 0.01, \*\*\*\* *p* < 0.001

Figure 7 – Comparing the Relative Impact of Representatives on the Perception of the Organization vs. the Practice for Implicit and Explicit Changes in Opinion

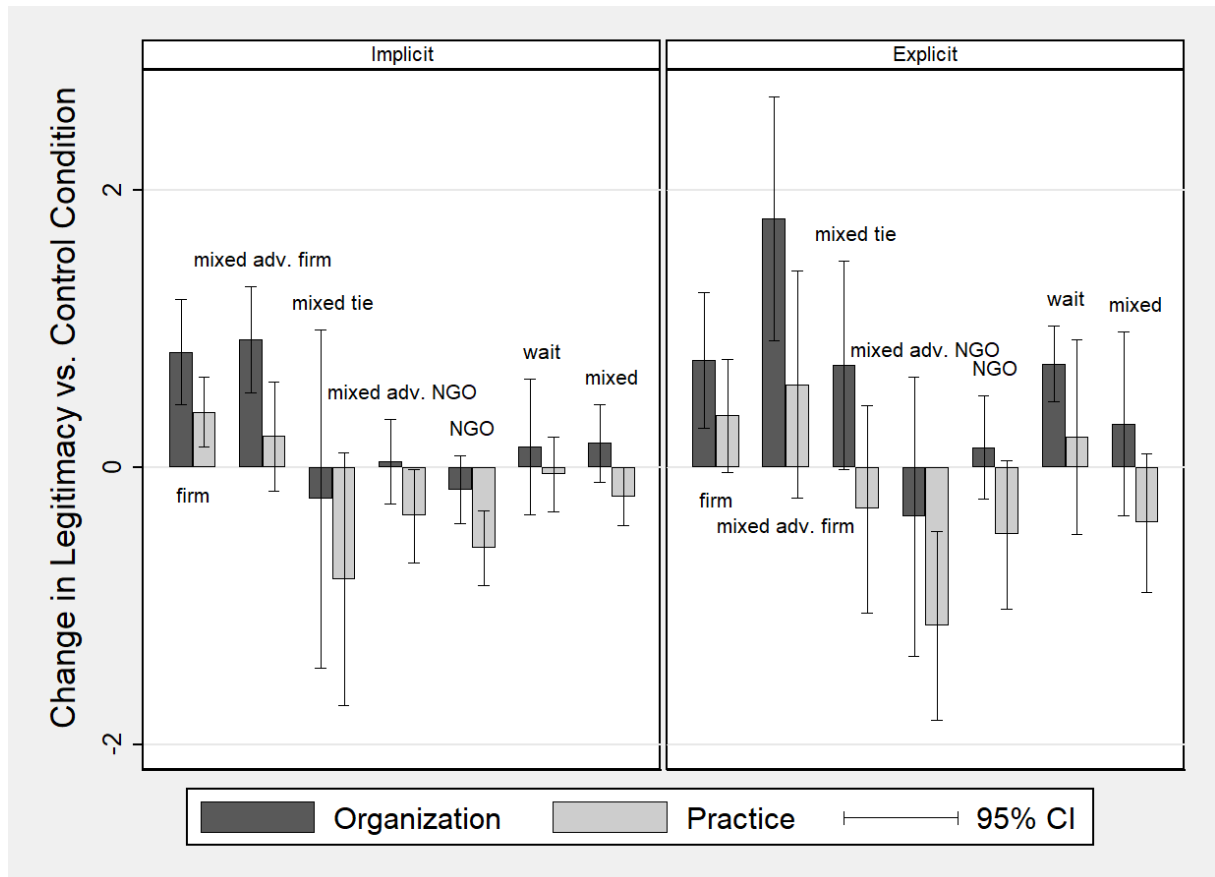


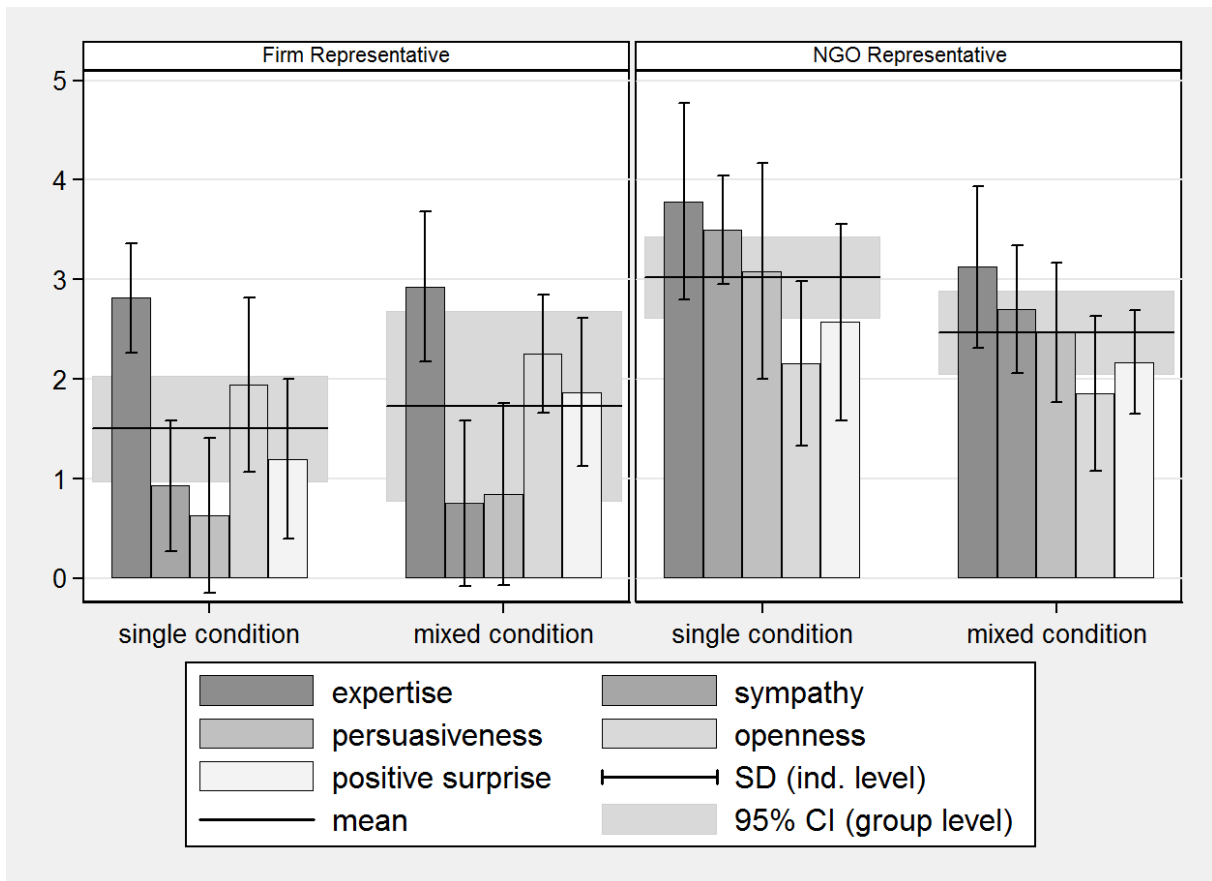
Table 6 – Logit regression: % firm representative viewed as more convincing

	(1)
	% mixed pro firm
Political position (-5=left, +5=right)	0.635*** (0.005)
Position towards Big Four (-5=contra, +5=pro)	0.904*** (0.002)
economics	-3.413** (0.011)
session (discussion group)	0.162 (0.279)
constant	-0.595 (0.546)
<i>N</i>	70
<i>Pseudo R</i> <sup>2</sup>	0.4890

*p*-values in parentheses

\* *p* < 0.10, \*\* *p* < 0.05, \*\*\* *p* < 0.01, \*\*\*\* *p* < 0.001

Figure 8 – Participants' Ratings of the Representatives' Performance



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