

# Coercive, normative, and mimetic isomorphisms as drivers of corporate tax disclosure

## The case of the tax reconciliation

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### Abstract

**Purpose** – International Accounting Standard (IAS) 12 requires the disclosure of a tax reconciliation (TR). The purpose of the TR is to explain the differences between the corporate effective tax expense and the corporate theoretical tax expense. In this paper, the authors investigate which institutional pressures influence the level of disclosure of the TR.

**Design/methodology/approach** – The study draws on an empirical archival approach in which the level of disclosure is first measured and then associated with institutional pressures. The sample comprises 120 companies listed on the Paris stock exchange, i.e. a highly institutionalized setting.

**Findings** – The findings show a wide variation in the level of disclosure of the TR across the sample and that all three types of isomorphism (coercive, normative and mimetic) are associated with disclosure.

**Research limitations/implications** – The paper deals exclusively with TR given its importance to a wide range of users. Additional tax information available in annual reports, most of the time at an expert level, may be the subject of further research.

**Practical implications** – The results have important implications for standard setters, regulators, and practitioners as the research outlines the institutional pressures at work in corporate reporting policies and pushes forward the debate on fiscal transparency.

**Originality/value** – This paper documents the influence of institutional pressures on the level of the TR disclosure at a country level. It contributes to the literature on corporate tax disclosure which mainly focuses on differences across countries. An innovative *ad hoc* index is used to measure information completeness.

**Keywords** Isomorphism, Neo-institutional theory, Corporate disclosure, Tax reconciliation

**Paper type** Research paper

### Introduction

Over the past few years, income tax paid by large companies has become a highly sensitive issue. Indeed, companies with a tax expense equal to their accounting profit multiplied by the applicable tax rate are very rare. Questions have thus emerged about the amount of the contribution companies actually pay and should pay to society. These questions more broadly refer to “[...] the company’s citizenship behavior” (Dowling, 2014, p. 173). In France, which is our field of study, the subject is sensitive as it directly refers to equal treatment of all taxpayers, whether individuals or companies, and ultimately to consent to taxation[1].

An ever-widening audience including citizens, stakeholders, non-governmental organizations, politicians, etc. is now interested in corporate taxation (PwC, 2013). Activists such as Oxfam France[2] are calling on the French government to demand more



information from companies on tax paid (Oxfam France, 2017). Their objective is to increase both public interest and public pressure on corporate taxation. Finally, “[...] the debate on fair tax is progressing at such a pace that it is difficult to envisage an environment where increased tax transparency in some form or another is not on the near horizon” (Ernst and Young, 2013, p. 3).

In this context, the tax reconciliation (TR) companies have to disclose is subject to scrutiny. The TR is required by IAS 12 (International Accounting Standards) and aims at explaining the difference(s) between the company’s theoretical income tax and its effective income tax. More precisely, this standard requires companies to publicly disclose in their annual reports their hypothetical tax charge, their effective tax expense, and the difference(s) between the two. The TR is the only mandatory document that makes these data public, hence its importance for interested parties.

The point of IAS 12 is to detail how the current effective tax expense is computed. In turn, it allows investors to anticipate the future tax expense (depending on the recurrence or non-recurrence of the reconciliation items), i.e. to predict future tax cash-flows. Wahab and Holland (2015) show as well that IAS 12 TR can be used to predict persistence of companies’ tax management behavior. The TR also receives special attention from other users and the general public interested by corporate taxation as it may inform about potential tax avoidance activities (Barros, 2016).

Although IAS 12 includes tax reporting requirements, the content and the form of the TR remain at management’s discretion. Companies, therefore, have the opportunity to complete (or not) the TR with descriptions and explanations to make it more useful. In other words, they have considerable leeway to define strategies in relation to the level of desired disclosure and the degree of political and social pressures they face. The above elements raise two questions: how do companies use this latitude? And is the TR disclosure policy influenced by the corporate institutional environment?

In this paper, our objective is to identify and explain the level of disclosure of the TR required by IAS 12. Our research relies on the neo-institutional theory (NIT), which places organizations in a sociopolitical framework and considers corporate reporting as a way for managers to establish and maintain their organizational legitimacy. The value of this framework is to focus attention on aspects in financial corporate disclosure studies that are often overlooked or neglected, namely, the influence of institutional pressures instead of market forces only. The NIT links organizational practices to the values and norms of the society. Organizations try to adopt practices that seem to be acceptable or “normal” in the eyes of the community and influential interest groups. This process leads organizations to adopt convergent practices. In this study, we suggest that the TR disclosure policy is now part of institutional practices transmitted to organizations in a field through an isomorphic process (DiMaggio and Powell, 1983). Our general assumption is that the TR disclosure policy is a part of an isomorphism process.

To test this assumption, we adopt a two-stage approach. First, we measure the level of disclosure of the TR published in companies’ annual reports. Our measure relies on the concept of information completeness as laid down by the International Accounting Standards Board (IASB). Second, we assess the influence of isomorphism process on companies’ TR disclosure policy. Our sample comprises the 120 French largest listed companies over the 2013–2015 period. Empirical tests reveal the existence of three isomorphism processes at work: a coercive process occurring when the French State owns shares in the company, a normative one coming from one audit company, and an intra-industry mimetic one.

The paper adds to the literature on determinants of corporate tax disclosure practices and especially the article of Kvaal and Nobes (2013) who show that institutional framework explains differences in corporate disclosure between countries. We highlight that institutional factors may also be at work at a single-country level. Indeed, we show that

national institutional factors lead to an upward homogenization of TR reporting in our sample. The paper may also contribute to the on-going debate on fiscal transparency and have practical implications for managers. Our results underscore that TR disclosure may help to enhance and maintain corporate legitimacy. It is, therefore, fundamental from that perspective that companies try to give a clear picture when they explain the amount of the income tax they pay. Finally, the results may also be useful to policy makers and standard-setters concerned about improving the comparability and quality of accounting information (Maroun and van Zijl, 2016), the question being whether there is a need for further regulation of the TR.

### **Regulatory background and related literature**

#### *Regulatory background of TR in France*

The IAS 12 standard was issued by the International Accounting Standards Committee (IASB, 1996). Since 2005, this standard has been mandatory for all consolidated financial statements of French listed companies. Provisions related to TR appear in paragraph 81(c). Companies have to disclose an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

- (1) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; and
- (2) a numerical reconciliation between the average effective tax rate (ETR) and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.

At present, the reporting format of the reconciliation is therefore poorly regulated as no format is suggested or required by IAS 12.

Noting that corporate taxation has become a sensitive issue and that the TR disclosed proved to be of very heterogeneous quality, the French Financial Markets Authority called AMF (Autorité des Marchés Financiers) (2013) published a recommendation calling for qualitative improvements in terms of both the form and the informational content of TR. The improvements relate to the presentation of income before taxes, explanations of the tax rate chosen by companies for the reconciliation, and details on the main impacts of rate differentials. The goal is to enable the reader to easily access the relevant numbers, to understand how the tax rate is computed for the reconciliation, and to understand the effects of significant rate differentials.

#### *Related literature*

When dealing with corporate income tax matters, one can distinguish between two types of research. The first one – not central to our paper – relates to corporate tax avoidance. Tax avoidance broadly refers to any corporate activity, whether legal or illegal, entered into solely to reduce a firm's taxes (Dowling, 2014; Hanlon and Heitzman, 2010). This involves using R&D incentives, exploiting aggressive tax shelters, engaging in income shifting, etc. (Amiram *et al.*, 2019). According to Hanlon and Heitzman (2010), a large stream of research has focused on tax avoidance magnitude, determinants, and consequences (e.g. Amidu *et al.*, 2016; Gallemore *et al.*, 2014; Wahab and Holland, 2012). Other analyses, closer to our research objective, have studied the relationship between tax avoidance and tax disclosure. In their review, Mgammal and Ismail (2015) state that income tax disclosure may decrease tax avoidance. Indeed, managers may fear the public's reaction if tax disclosure reveals an ETR doubtfully low (Lenter *et al.*, 2003). In the same vein, Holland *et al.* (2016) show that managers perceive tax avoidance criticisms as a potential threat to corporate legitimacy. In response to this threat, firms' tax disclosure strategies are varied; in some cases even,

no response is provided. Henry *et al.* (2016) recently observed that disclosure requirements providing relevant information about tax avoidance activities are associated with lower levels of tax avoidance. Taking the relationship the other way round, Gleason and Mills (2002) provide evidence that managers of companies using tax planning are unwilling to disclose information about these activities. Balakrishnan *et al.* (2019) show the contrary. Given that tax avoidance strategies increase corporate financial complexity, managers of aggressive companies attempt to mitigate financial transparency issues by increasing tax-related disclosure.

The second type of research deals with income tax disclosure. Tax disclosure may be defined by “[...] the legal requirement to provide current taxation information to the other party [...]” (Mgammal and Ismail, 2015, p. 2). For the purpose of this study, tax disclosure relates to the public disclosure of corporate income taxes in the notes to the financial statements complying with IAS 12 requirements (more specifically TR). To the best of our knowledge, four studies have addressed aspects of the TR. Kvaal and Nobes (2013) compare the reporting practices related to TR of 161 large companies in five countries. They conclude that there are systematic differences in IAS reporting practices between companies across countries. Barros (2016) examines the impact of tax information disclosure on firms’ value. The study carries out a European comparison of IFRS adopters, covering eight countries. Results show that companies disclose only about 44 percent of the overall information required by IAS 12. A determinant study then suggests that tax aggressive companies disclose more mandatory information on income tax in the notes to the financial statements. Results suggest that tax avoidance is not associated with voluntary disclosure of income taxes. Lopes (2014) analyzes how Portuguese companies apply one specific section of IAS 12: deferred taxes. The author reports an increase in the compliance rate from 2008 to 2012 and identifies three determinants of the compliance rate: the return on equity, an increase in the debt rate, and the size of the audit firm proxied by the distinction between Big 4 and non-Big 4 audit firms. Ebrahim (2014) analyzes the impact of audit quality on compliance with recognition and disclosure requirements for income tax accounting after Egypt’s full adoption of IFRS in 2006. Results show that being audited by an audit firm with international affiliation (as opposed to being audited by a local Egyptian audit firm) significantly increases compliance.

Other studies on tax disclosure do not specifically focus on IAS 12 but may provide a clearer picture of the fiscal transparency behavior of listed companies in different contexts. Stiglingh *et al.* (2016) examine the fiscal transparency of 50 listed corporations in South Africa. They compile a list of 49 disclosure items covering ten different requirement standards, interpretation standards, and recommendations from audit companies. They find that 86 percent of companies in their sample comply with more than 70 percent of the mandatory tax reporting requirements. In Romania, Istrate (2016) examines the impact of IFRS on the disclosure of income tax figures. They conclude that “[...] only two thirds of the listed companies give a clear image of how the ETR comes close to the statutory tax rate [...]” (p. 477). In another vein, Hardeck and Kirn (2016) use a sample of companies listed in three countries from 2007 to 2012 to analyze their compliance with the Global Reporting Initiative’s tax disclosure requirements in sustainability reports. They show that the level of tax disclosure is overall fairly low and depends on the ETR, media coverage, and the sector.

Taken together, this literature review shows that tax disclosure, and especially the TR, is an under-explored area of research. Most empirical studies are descriptive, revealing substantial discrepancies between reporting practices. The few existing determinant studies follow an economic perspective that analyzes the links with firms’ economic characteristics, governance variables, and tax avoidance. However, the topicality of the subject shows that tax disclosure deserves more attention, arguably a “system-oriented” one, from researchers. What motivates our paper is to consider corporate tax disclosure (through IAS 12) as the product of interactions between companies and their institutional environment.

## Theoretical framework and hypotheses development

### *Neo-institutional theory and corporate disclosure policy*

In the neo-institutional framework, accounting is viewed as a product modeled by both social and political environments. Three founding notions characterize this approach: the organizational field, legitimacy, and isomorphism. The organizational field is a recognized social structure comprised of investors, key suppliers, competitors, etc. (DiMaggio and Powell, 1983). The relevance of this level of analysis stems from the attention drawn to all relevant actors (beyond the sole economic and competitive environment) to identify how and to what extent they influence companies' behavior. Legitimacy is defined by Suchman (1995, p. 574) as the "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." According to DiMaggio and Powell (1983), organizations compete not only for clients and resources but are also driven by the search for legitimacy. In our paper, the disclosure of a TR may contribute to the search for legitimacy as it makes tax assessment more accurate in light of business's obligation to pay their share.

Isomorphism makes it possible to describe homogenization dynamics within an organizational field. Three types of isomorphism are identified. The first one – coercive isomorphism – "results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function" (DiMaggio and Powell, 1983, p. 150). Coercive pressures come from the firm's legal and contractual environment (Scott, 2001). In this context, the State can play an important role through regulations (i.e. financial reporting requirements) that potentially reflect the expectations of the civil society and activists (Christians, 2013). The second process – normative isomorphism – results from the professionalization of the institutional environment. Professionalization refers to the set of collective efforts made by the members of a profession to define their working methods and conditions, and legitimize their activities. In the accounting field, professionalization is identified as an important source of isomorphism. For example, Carpenter and Feroz (2001) show the influence of professional associations on the adoption of accounting principles and Cooper and Robson (2006) highlight the growing importance of accounting professionals (especially auditors) on accounting practices firms implement. The third process – a mimetic one – implies that an organization replicates the practices of other organizations within its organizational field to gain legitimacy in this field. Uncertainty is the most powerful driving force for imitation (DiMaggio and Powell, 1983). In response to uncertainty regarding, for example, structures, actions or processes, companies model themselves after other organizations that have already successfully experienced the structures, actions or processes in question and therefore appear legitimate. In terms of corporate disclosure, research has shown that firms engage in mimetic behavior driven by their industry membership (Cormier *et al.*, 2005; Setyorini and Ishak, 2012). The industry is taken as a reference group as, within a sector, companies face the same uncertainties and institutional pressures (Lopes and Rodrigues, 2007).

### *Research hypotheses*

According to the NIT, managers try to conform to norms that are substantially imposed upon them within an organizational field. At present, as "[...] simply complying with current [tax reporting] rules may no longer be enough" (Ernst & Young, 2013, p. 3), we suggest that managers complete their TR to respond to the concerns of interest groups. Increasing tax information, therefore, appears as part of an institutional practice that is transmitted into an organizational field through three isomorphism process(es).

*Coercive isomorphism: the State as a shareholder.* In a context where corporate tax has become a very sensitive subject, the State has to play a key role in increasing corporate

fiscal transparency. One way is to regulate corporate tax reporting more closely. Another way (relevant in our work) is to directly influence the tax reporting in companies in which it holds shares. Three arguments explain why the State-shareholder exerts pressure on its holdings for more fiscal transparency.

First, the State – as a tax collector – must ensure the population’s consent to taxation. The State, therefore, has an interest in demanding an exemplary tax transparency from its subsidiaries. Indeed, a lack of fiscal transparency from its shareholdings would reflect a lack of State fiscal responsibility and could call into question the consent to taxation. Finally, the State has to ensure the quality of tax information provided by companies in which it holds shares to improve its own ability to collect taxes (Alm and Torgler, 2011). Second, the State is responsible for protecting the public interest. Citizens are very attentive to companies’ contribution to the economy and social welfare (Oxfam France, 2017). As this attention increases when the State owns shares in a company, the State has an interest to put pressure on that firm to better explain its income tax. Third, in its investor role, the State has to send clear signals in ethical and governance matters. It is in this sense that the State-shareholder promotes fiscal transparency in its holdings (APE, 2015)[3].

These developments suggest that the State puts pressure on companies in which it holds shares to disclose a more complete TR. This pressure is considered coercive for two reasons. First, the company is dependent upon the State which is one of its financial resources providers. Second, in the French context, this influence is organized at the State level as there exists a government agency (see endnote 3) defining a disclosure policy for all its shareholdings. The disclosure behavior of companies in which the State holds shares is, therefore, overall dictated by a governmental regulation. Hence, our first hypothesis is as follows:

*H1.* The level of disclosure of the TR is positively associated with State ownership.

*Normative isomorphism: the auditing profession.* In the accounting field, professional auditors’ networks are considered a significant isomorphism source. For auditors, practices have to make sense on the interpersonal level, but above all, are ultimately implemented only due to their social legitimacy (Touron, 2004). Consequently, many of the preparers and their auditors have a sense of “fiduciary duty to stakeholders” (DiMaggio and Powell, 1983). The audit company Ernst & Young (2013), thus, notes that civil society now expects companies to be accountable for their tax policies and the amount of tax expense. In other words, an external audit that is “[...] publicly and legally expected to check the managers’ fiduciary duties towards stakeholders” (Kurihama, 2016, p. 13) may encourage more complete TR.

In accordance with prior literature, we suggest that larger audit companies may be more proactive regarding fiscal transparency (Carlin *et al.*, 2009; Fuerman, 2004). Indeed, size is generally associated with audit quality. Besides, in an extremely competitive audit market, promoting transparency of information (a basis of trust for investors and stakeholders) is one of the challenges that audit firms have to tackle to stand out from competitors (PwC, 2015). This leads to the following hypothesis:

*H2.* The level of disclosure of the TR is positively associated with the size of the audit firm.

*Mimetic isomorphism: the industry reporting practices.* Taxation is a complex topic and the consequences of information disclosure (or non-disclosure) in this area are unpredictable (Morris, 2015). By listing the advantages and drawbacks of tax information disclosure, Mgamal and Ismail (2015) show the complexity and uncertainties managers face in choosing the degree of tax transparency. In our study, we suggest that managers align their TR with



that of companies with similar activities to manage these complexity and uncertainty. The industry is the reference group for imitation process (Aerts *et al.*, 2006; Deegan and Gordon, 1996; Wilmshurst and Frost, 2000). Indeed, due to the nature and/or the location of their activities, some industries attract more stakeholder interest on tax matters than others. For example, extractive industries are known to benefit from favorable income tax rates in countries in which their activities are located. It is therefore to meet the need for transparency without necessarily disclosing too much that managers would set their TR based on those disclosed by their peers. This leads to the following hypothesis:

*H3.* The level of disclosure of the TR is positively associated with the level of disclosure prevailing in the reference group (industry).

### Variable measurement and empirical design

#### *Dependent variable measurement*

Our objective is to measure the level of disclosure of the IAS 12 TR by using an index. We base our measure on the concept of completeness, coming from the IASB framework (IASB, 2010). Information is complete if a user can understand the phenomenon being depicted, which requires descriptions and explanations. In our study, we select in our index the essential elements to fully understand the reconciliation[4]. We thus base the selection of our own items on the AMF recommendation and IAS 12. These recommendations address four questions companies should answer to improve their reporting[5].

The first question concerns the theoretical rate chosen by companies for their reconciliation. Several options are possible: the French base rate, a weighted average rate for international companies, etc. It is, therefore, important that companies give information on that point. Items 1, 4? and 9 of our index deal with that question. The second question concerns the amount of income before taxes to which the theoretical rate is applied. This amount may vary from one company to another (consolidated pre-tax income, pre-tax income from continuing operations, etc.) and leads to different formats of reconciling items. Items 2 and 3 clarify this matter. The third question concerns the presentation of the reconciliation, in percentage and/or value. Percentages indicate the weight of each reconciliation factor while values indicate the importance of the amounts at stake (items 5–8)[6]. The fourth question concerns additional information on rates and amounts differentials, and other significant information. Items 10 and 11 are voluntarily open to consider all possible situations of companies[7] and may appear outside the TR. Table I describes the 11 items used to construct our completeness disclosure variable (*TR\_COMPL*). The maximum possible score is 11 and the minimum is 0.

#### *Independent variables measurement*

*Main variables.* To test *H1*, we collect the French State's ownership percentage from several sources to ensure data consistency and reliability. To test *H2*, we construct a binary proxy for the size of the auditing firm. We point out here a French specificity: to produce consolidated accounts, companies have to appoint two auditors from distinct audit firms. To test *H3*, we compute the average completeness score (*TR\_COMPL*) by industry to form the *IND\_COMPL* variable.

*Control variables.* Several control variables are included in the regression models to control for other potential effects. We first include *SIZE* and *PROFIT* variables (Barros *et al.*, 2013) and a *FOREIGN* variable (Cuijpers and Buijink, 2005). Following Khlif *et al.* (2017), we integrate an ownership concentration variable (*OWN\_CONC*). We then add three corporate governance variables: a binary *CEO\_DUALITY* variable (Samaha *et al.*, 2015), a *BOARD\_INDEP* variable measuring the percentage of independent Board members

Item	Number	Description	Average
Theoretical tax rate	1	1 if presence of the theoretical tax rate chosen, 0 otherwise	0.988
Pre-tax income	2	1 if presence of the pre-tax income, 0 otherwise	0.840
Additional information on pre-tax income	3	1 if presence of additional information, 0 otherwise	0.348
Theoretical expense	4	1 if presence of the theoretical expense, 0 otherwise	0.832
Effective tax rate (ETR)	5	1 if presence of the ETR, 0 otherwise	0.680
Effective expense	6	1 if presence of the effective expense, 0 otherwise	0.840
Reconciliation using values	7	1 if the reconciliation is in values, 0 otherwise	0.832
Reconciliation using percentages	8	1 if the reconciliation is in percentages, 0 otherwise	0.270
Explanations on the theoretical rate	9	1 if presence of explanations, 0 otherwise	0.434
Impacts	10	1 if presence of information on the impacts of rates differentials, 0 otherwise	0.201
Comment	11	1 if presence of another piece of information, 0 otherwise	0.455
		Average =	6.721

**Table I.**  
TR disclosure index used to create the *TR\_COMPL* variable and average score by item

(Barros *et al.*, 2013) and an *INT\_CONTROL* variable indicating whether the company has a risk and internal control committee[8]. We also include a *LEVERAGE*[9] variable. Finally, as the level of TR disclosure may also be related to tax aggressiveness (Barros, 2016; Hardeck and Kirn, 2016), we add a *RATE\_DIFF* variable equal to the absolute difference between the company's ETR and the applicable tax rate in France equal to 38 percent[10]. Table II presents all variable definitions.

Variables	Description	Sources
<i>Dependent</i>		
<i>TR_COMPL</i>	TR completeness disclosure See Table I	Annual reports
<i>Independent</i>		
<i>STATE_OWN</i>	Percentage of outstanding shares owned by the French State × 100	Annual reports Diane
<i>AUDIT_SIZE</i>	1 if one of the auditors is a Big 4, 0 otherwise	Thomson financials Annual reports Diane
<i>IND_COMPL</i>	Average <i>TR_COMPL</i> across industries (based on 2-digit SIC codes)	Annual reports Worldscope-field 07021
<i>SIZE</i>	Logarithm of total assets	Worldscope-field 02999
<i>PROFIT</i>	Return on assets	Worldscope-field 08326
<i>FOREIGN</i>	International sales/net sales or revenues × 100	Worldscope-field 08731
<i>OWN_CONCENT</i>	Number of closely held shares/common shares outstanding × 100	Worldscope-field 08021
<i>CEO_DUALITY</i>	1 if the CEO is also the Chairman of the Board, 0 otherwise	Annual reports Datastream
<i>BOARD_INDEP</i>	Percentage of independent Board members	Annual reports Datastream
<i>INT_CONTROL</i>	1 if the company has a risk and internal control committee, 0 otherwise	Annual reports
<i>LEVERAGE</i>	Total debt/common equity × 100	Worldscope-field 08231
<i>RATE_DIFF</i>	Difference between the corporate ETR and the statutory tax rate (0.38)	Annual reports

**Table II.**  
Description and sources of variables



To test the whole set of hypotheses, we estimate the following ordinary least squares regression:

$$TR\_COMPL = \alpha_1 + \alpha_2 \times STATE\_OWN + \alpha_3 \times AUDIT\_SIZE + \alpha_4 \times IND\_COMPL + \alpha_{i=5}^{i=13} \times controls. \quad (1)$$

Coefficient  $\alpha_1$  is associated with the constant of the model. We expect a positive sign for  $\alpha_2$ ,  $\alpha_3$ , and  $\alpha_4$  coefficients. Our empirical model also includes dummies for year fixed effects[11]. Standard errors are clustered by firm[12] and calculated using the Huber-White adjustment for heteroscedasticity.

### Sample selection and empirical results

#### *Sample selection*

Our data set comprises companies belonging to the SBF 120 (Société des Bourses Françaises), as of July 2016. This index is based on the 120 most actively traded stocks listed on the French stock market. All the companies' annual reports were retrieved from their websites. The French case is of particular interest for two reasons. First, France is one of the Organization for Economic Co-operation and Development (OECD) countries that invests most in listed companies (OECD, 2014). Second, France is one of the few countries in which a governmental institution called APE[3] manages all the State holdings (OECD, 2018). Our sample period spans from 2013 to 2015. The choice of our period allows us to have a stable study timeframe from an institutional point of view since the AMF recommendation was released with a view to the 2013 accounts being closed and is therefore valid from that date. From 360 potential observations, the total number of final observations was narrowed down after the exclusion of real estate companies (18 observations)[13], companies not headquartered in France (33 observations), companies not listed in 2014 or in 2013 (9 observations), companies with a negative ETR (24 observations)[14], and companies with no data available for all variables (28 observations)[15]. The final sample is comprised of 248 company-year observations.

#### *Descriptive statistics*

The *TR\_COMPL* variable measures the completeness of the information disclosed in the TR (Table I). The results of our content analysis reveal that only 4 companies out of 248 have no TR. On 244 observations[16], the average *TR\_COMPL* score is equal to 6.721. The minimum value is 2 whereas the maximum reaches 10. Item 1 is the most prevalent one. More than 58 percent of the companies (141 out of a total of 241[17] observations, not reported) use a theoretical tax rate equal to 38 percent. Other companies mention various income tax rates, systematically lower than 38 percent.

Table III contains descriptive statistics for all the independent variables. The French State owns shares in 56 companies with an 18.16 percent average of ownership (not reported). The *AUDIT\_SIZE* average, equal to 0.951, shows that almost all companies in the sample have at least one Big 4 firm among their two mandatory and distinct auditors. We also observe that Big 4 firms represent 71 percent of the total number of mandates, which is in line with Lobo *et al.* (2017). Regarding *IND\_COMPL*, eight industries are identified. Two sectors have a lower number of observations compared to the others. All the analyses run in the remainder of the paper are the same if those two sectors are removed (14 observations in total).

#### *Regression analysis*

The findings related to Equation (1) are reported in column (1) of Table IV. The *F*-test statistic, equal to 3.385, shows that our main model is overall significant.

**Table III.**  
Descriptive statistics of the independent variables

	SD	Min.	Mean	Median	Max.
<i>Main variables</i>					
STATE_OWN	12.659	0	4.317	0	89.940
AUDIT_SIZE	0.217	0	0.951	1	1
IND_COMPL	0.460	6.313	6.729	6.490	8
<i>Control variables</i>					
SIZE	1.764	10.742	16.259	15.999	21.451
PROFIT	5.953	-43.23	4.192	4.03	22.980
FOREIGN	29.687	0	55.142	62.815	100
OWN_CONC	26.030	0	34.170	29.050	96.590
CEO_DUALITY	0.453	0	0.713	1	1
BOARD_INDEP	18.907	12.5	51.692	50	100
INT_CONTROL	0.483	0	0.369	0	1
LEVERAGE	136.143	-105.85	96.763	61.540	814.17
RATE_DIFF	0.277	-0.380	-0.040	-0.072	2.938

Note:  $n = 244$

		Dependent variable: <i>TR_COMPL</i>		
		(1)	(2)	(3)
	Expected sign	Main model	Big 4 only model	EY model
STATE_OWN	H1: +	0.018** (0.009)	0.018** (0.008)	0.017** (0.008)
AUDIT_SIZE	H2: +	-0.350 (0.541)		
AUDIT_BIG4ONLY	H2: +		-0.282 (0.284)	
AUDITOR_NAME_EY	H2: +			0.488** (0.256)
IND_COMPL	H3: +	0.928*** (0.285)	0.924*** (0.290)	1.020*** -0.288
SIZE		-0.001 (0.076)	0.018 (0.075)	-0.033 (0.082)
PROFIT		0.024 (0.017)	0.025 (0.018)	0.028* (0.016)
FOREIGN		0.007 (0.004)	0.007 (0.005)	0.006 (0.004)
OWN_CONC		0.001 (0.005)	0.000 (0.005)	0.001 (0.006)
CEO_DUALITY		-0.367 (0.250)	-0.313 (0.259)	-0.328 (0.248)
BOARD_INDEP		0.001 (0.007)	-0.001 (0.007)	-0.001 (0.007)
INT_CONTROL		-0.179 (0.329)	-0.196 (0.328)	-0.154 (0.316)
LEVERAGE		0.001* (0.001)	0.001* (0.001)	0.001* (0.001)
RATE_DIFF		-0.354* (0.211)	-0.285 (0.197)	-0.392* (0.230)
Constant		0.412 (2.046)	-0.020 (1.959)	-0.146 (2.013)
R <sup>2</sup>		0.175	0.181	0.199
Time FE		Yes	Yes	Yes
Cluster		Company	Company	Company
F-statistic		3.385	3.351	3.404

**Notes:**  $n = 244$ . Robust standard errors in parentheses. Two-sided  $t$ -statistics (one-sided for directional hypotheses). All variables are defined in Table II. *AUDIT\_BIG4ONLY* is a binary variable equal to 1 if both auditors are Big 4, 0 otherwise. *AUDIT\_EY* is a binary variable equal to 1 if one of the auditors is EY, 0 otherwise. \* $p < 0.1$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$

**Table IV.**  
Regression results

*H1* focuses on coercive institutional pressure through the presence of the French State in the company's equity. In line with our expectations, we find a positive and significant coefficient ( $\alpha_2 = 0.018$ )[18].

Regarding *H2*, the coefficient on *AUDIT\_SIZE* is not significant. In other words, the presence of a large audit firm does not influence TR completeness. To refine our result, we test two additional audit variables. First, we create a dummy *AUDIT\_BIG4ONLY*

variable taking on the value 1 if both auditors are Big 4 companies and 0 otherwise. It is indeed possible that the influence of Big 4 is detectable only when the two auditors are both Big 4. We replace *AUDIT\_SIZE* with *AUDIT\_BIG4ONLY* in regression (2) of Table IV. Second, we build a series of dummy variables for each Big 4 (*AUDITOR\_NAME*) coded 1 if the Big 4 considered is one of the two auditors and 0 otherwise. We replace *AUDIT\_SIZE* with *AUDITOR\_NAME* in our model[19]. The results show that the presence of two Big 4 companies as auditors of financial statements is not associated with greater TR completeness. When *AUDIT\_SIZE* is replaced by *AUDITOR\_NAME*, only one Big 4 auditor is significantly associated with the completeness score. In regression (3), *AUDITOR\_NAME\_EY* is positive and significant ( $\alpha_3 = 0.488$ )[20]. The presence of Ernst & Young (EY) as one of the signatories of financial statements is thus associated with companies disclosing complementary information in their TR.

Finally, regarding *H3*, the positive and significant coefficient on *IND\_COMPL* ( $\alpha_4 = 0.928$ , in model (1)) suggests that companies' reporting practices are strongly influenced and modeled by the industry they belong to[21]. This is probably due to the fact that some industries are subject to high scrutiny from stakeholders and consequently to considerable pressure on account of their potential to avoid taxes (Hardeck and Kim, 2016).

We performed two sensitivity tests. First, we conducted our regressions with non-winsorized and 5 percent winsorized data. Second, we removed the observations that have a positive ETR due to a negative tax expense and a negative pre-tax income[22]. In both cases, our results are not significantly affected. Overall, our expectations about the relation between institutional pressures and the level of disclosure of the TR are supported, regardless of the nature – coercive, normative or mimetic – of the pressure.

### Discussion and conclusion

The purpose of this study is to analyze the institutional determinants of the level of disclosure of the TR in a highly institutionalized framework. Instead of exploring disclosure heterogeneity across companies, which is the purpose of agency, governance or signal theories, we explain homogeneity through the NIT. Using this approach, we fill in a gap in the literature identified by Samaha and Khelif (2016).

We show that a number of isomorphic processes are simultaneously acting on TR disclosure. Regarding coercive forces, we identify that State ownership is associated with TR completeness. Tax transparency is actually one of the objectives defined by the APE, which manages the French State's holdings. In this way, the State responds to public demands and acts as a responsible and powerful stakeholder. Finally, our results indicate that the State is itself in search of social legitimacy, which ultimately enables it to improve tax collection (Mickiewicz *et al.*, 2019).

Regarding normative pressures, we shed light on the virtuous influence of one of the Big 4 audit firms on tax reporting. As mentioned in its transparency reports (Ernst & Young, 2014, 2015), the commitment of this auditor to the quality and transparency of its clients' financial statements encompasses addressing societal expectations and may explain this result[23].

Regarding mimetic pressures, we suggest that the tax issue represents a great source of uncertainty and concern for companies. Indeed, they have to manage a contradiction: tax information is very sensitive and strategic while, at the same time, pressures for increased fiscal transparency are increasing from all sides. We show that companies manage that uncertainty by aligning their disclosure policy with those of industry peers.

Taken together, our results show that TR is far from being a neutral technical reporting mechanism intended to respond to the needs of financial community, but the product of interactions between companies and a broader societal and institutional environment in which these companies want to find their own place (legitimacy). The isomorphic movement detected here explains why companies further complement their TR when applying IAS 12.

A few caveats should be noted. First, we voluntarily focus exclusively on the TR likely to interest a wide range of users (see e.g. PwC, 2013). Other tax information may be of interest as well as other dimensions of information quality. Second, we recognize that the disclosure of the reconciliation both in percentage and value may not necessarily increase informational content. Third, because of its unique features, the French context somehow precludes the generalization of some of our results to different institutional contexts.

## Notes

1. An article published in the newspaper *Le Monde* (2013) reveals that consent to taxation is shared by only a large half of French people.
2. Oxfam France is an association fighting against injustice and poverty.
3. APE stands for *Agence des Participations de l'État* (Agency for State Ownership).
4. The AMF and the IAS 12 standard do not specify a list of reconciling items to which companies may refer to build their TR.
5. The AMF also invites companies to disclose clear headings. This part is not included in our index since it is not our purpose.
6. We consider that both complement each other in the interest of users who do not have to compute the percentages in values or vice versa. On that basis, all the items can simultaneously be present in a single TR.
7. We point out that item 10 is relevant regardless of the tax rate used to start the TR (the French statutory tax rate, a weighted average of national rates or another one). In all cases and due to their nature, items 1 and 10 complement each other.
8. This committee is a voluntary governance mechanism distinct from the mandatory audit committee.
9. After careful consideration, we determined that the *FOREIGN* and the *LEVERAGE* variables need to be winsorized to remove potential outlier issues. We use a 1 percent winsorization level (0.05 in each tail).
10. Companies may use at least three theoretical rates: the base rate of 33.33 percent including or not the social surtax of 1.1 percent and/or an exceptional one of 3.57 percent. The final tax rate is equal to 38 percent.
11. To test *H3*, we compute a variable at the industry level. To mitigate statistical concerns arising from the inclusion of this variable, we include industry fixed effects in addition to the year fixed effects. Results remain unchanged.
12. Following Petersen (2009), we use standard errors clustered by firms to address across firm and/or time correlations. Our research design may be anyway subject to potential endogeneity. We are thus attentive in not inferring causal relationships.
13. Tax rules governing real estate companies are different from those governing other industries.
14. We remove negative ETR observations to avoid negative pre-tax income (Bradshaw *et al.*, 2019; Khan *et al.*, 2017; McGuire *et al.*, 2014) or negative tax expense (Wahab and Holland, 2012).
15. We could not detect a selection bias as missing observations are not systematically related to one single variable.
16. All the other empirical analyses are carried out on these 244 observations.
17. Only three companies do not mention their theoretical applicable rate.
18. The fact that the State is a shareholder could deter tax management and foster disclosure TR information. A Wilcoxon–Mann–Whitney test shows that the ETR of companies in which the State holds a stake is not significantly higher than the one of companies in which the State has no stake, ruling out this alternate explanation.

19. In the case of a joint audit, each company has two auditors. To obtain exclusive categories (from an econometric point of view, a company can only belong to one category), we test each *AUDITOR\_NAME* variable in separate regressions. Doing so, we are able to “isolate” the effect of a Big 4 from its partners. We report the only regression including a significant relationship between *AUDITOR\_NAME* and *TR\_COMPL* in regression (3).
20. To ensure the robustness of our result on EY, we repeated the analysis on a sub-sample of firms audited by two Big 4 firms (116 observations) and we added intercept dummies for industry categories on the total sample (244 observations). Results (not reported) indicate that the effect on the EY variable persists with a similar significance level.
21. In this respect, it is possible to investigate a regional effect. We identified companies’ geographical business segments and then applied the same procedure as for the industry mimetic index. Results (not reported) indicate that neither signs nor significance levels of the coefficients of interest are affected by these variables.
22. 15 observations have a positive ETR due to a negative tax charge and a negative pre-tax income. We reran all tests deleting these companies as loss making firms may have different financial and tax reporting incentives compared to profitable ones.
23. The transparency report is mandatorily published by audit firms auditing one or more listed companies. Among reports issued by the Big 4 firms over the period of study, only Ernst and Young (2013) mentions a commitment to the quality and transparency of its clients’ financial statements. EY also expresses the hope that societal expectations around “fair tax” would lead to “[...] a greater degree of disclosure by many organisations” (p. 3). These statements provide a potential explanation for the outcome of EY.

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