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Financing Climate Action Through Fair Taxation: How SDG Engagement Reduces Corporate Tax Avoidance

Ahmed About^{1,2} | Niccolò Nirino³  | Panagiota Papadimitri⁴ | Michael Christofi⁵ 

¹Zayed University, Dubai, UAE | ²Beni-Suef University, Beni Suef, Egypt | ³Department of Management “Valter Cantino”, University of Turin, Turin, Italy | ⁴Department of Banking and Finance, University of Southampton, Southampton, UK | ⁵Faculty of Economics and Business Administration, Vilnius University, Vilnius, Lithuania

Correspondence: Niccolò Nirino (niccolo.nirino@unito.it)

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ABSTRACT

The transition to a low-carbon economy, central to achieving Paris Agreement targets and Sustainable Development Goal 13 (Climate Action), requires unprecedented public and private investment. A significant climate financing gap persists, however, exacerbated by corporate practices that erode the public revenue base. This paper investigates a critical, yet often overlooked, component of corporate responsibility: tax avoidance. We examine the impact of firm-level sustainable development goal (SDG) disclosure on corporate tax avoidance using an international sample of 7213 firms operating in 81 countries over the period 2019–2023. Our analysis reveals a robust inverse relationship between SDG disclosure and corporate tax avoidance, suggesting that firms more engaged with sustainability are also more responsible in their fiscal conduct. This result holds when using alternative model specifications and controlling for endogeneity concerns through a two-stage least squares (2SLS) model. In line with stakeholder theory, these findings indicate that socially responsible firms view tax avoidance as an illegitimate activity, aligning their financial practices with their public commitments. By demonstrating that SDG-conscious firms contribute more equitably to public finances, this study frames tax responsibility as a tangible and essential element of corporate climate action. It provides crucial evidence for policymakers and investors that encouraging comprehensive SDG engagement can strengthen the financial foundations for a sustainable transition.

JEL Classification: H26, M41, Q56

1 | Introduction

In September 2015, the United Nations introduced the sustainable development goals (SDGs) to address global challenges related to health, education, social equity, economic security and environmental sustainability, including climate change (Patuelli et al. 2022; Sullivan et al. 2018; UN 2015). Although SDGs and corporate social responsibility (CSR) are closely related, they are conceptually distinct. CSR refers to firm-level activities aimed at contributing to sustainability, whereas SDGs define globally agreed, time-bound goals that CSR initiatives seek to support.

In this sense, CSR answers what firms do to be sustainable, while SDGs specify the outcomes these efforts aim to achieve. CSR practices vary widely across firms and industries and lack standardisation, whereas SDGs provide a universal framework with specific targets and indicators, including those addressing urgent climate challenges. For example, CSR performance measured through ESG metrics may yield inconsistent results depending on measurement choices. By contrast, SDGs offer a holistic approach that integrates economic development, social inclusion and environmental sustainability, with climate action at the core (United Nation 2015).

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The 2030 Agenda comprises 17 goals and 169 indicators covering diverse sectors (United Nations 2015), yet its implementation raises concerns regarding responsibility allocation, stakeholder roles and financing—particularly for climate-related investments. The UN SDG Report (2021) highlights that COVID-19 significantly disrupted progress towards the SDGs, exacerbating social, economic and environmental challenges and delaying climate action. The pandemic also imposed severe economic pressures on governments and businesses (UN 2020), intensifying concerns over SDG financing. In 2020 alone, the SDG financing gap reached USD 1.7 trillion, further widening existing shortfalls. This challenge coincides with rising corporate tax avoidance, which directly undermines SDG financing by draining public revenues and limiting resources available for societal needs and climate investments (Bird and Davis-Nozemack 2018).

Taxation is a critical mechanism for mobilising domestic resources to support sustainable development and finance the green transition. The UN Tax Committee emphasises that addressing harmful tax avoidance and abuse enhances trust in government and expands societal opportunities. The literature identifies three main perspectives on the relationship between corporate sustainability practices and tax avoidance: the stakeholder view, the shareholder view and decoupling theory (Huseynov and Klamm 2012; Davis et al. 2016; Lanis and Richardson 2015; Aboud et al. 2024). Under the stakeholder view, paying fair corporate taxes is essential for funding public goods such as education, healthcare, infrastructure and climate-related investments (Sikka 2010; Lanis and Richardson 2015). Without sufficient tax revenue, governments struggle to meet public service and climate demands, particularly during crises. Corporations also benefit from stable social, economic and environmental systems supported by tax revenues. Consequently, firms that view tax payments as part of their sustainability commitments are less likely to engage in aggressive tax avoidance, especially when guided by directors with strong sustainability awareness (Wen et al. 2020). From this perspective, tax avoidance is considered socially irresponsible and incompatible with SDG-aligned sustainability practices, reinforcing the broader view that corporate responsibility extends beyond shareholders to a wide range of stakeholders (Lanis and Richardson 2015; Davis et al. 2016).

Nevertheless, the prevalence of tax avoidance scandals raises serious concerns about corporate tax responsibility, as firms increasingly engage in strategic tax behaviour to boost profits and meet shareholder expectations. High-profile cases involving Amazon, Pfizer, Google and Starbucks illustrate these concerns, with Starbucks alone paying £20 million in tax settlements (Graetz and Doud 2013). Governments are estimated to lose 4%–10% of global corporate income tax revenues—approximately USD 100–240 billion annually—due to multinational tax avoidance. These cases support the shareholder view, which frames tax avoidance as consistent with firms' primary responsibility to maximise shareholder wealth. Accordingly, tax avoidance is treated as separate from social responsibility. Empirical evidence supports this view, showing that risk-seeking CEOs engage in higher levels of tax avoidance (Baghdadi et al. 2022) and that firms with CSR activities may still pursue aggressive tax strategies (Abdelfattah and Aboud 2020; Lanis and Richardson 2012). This aligns with robust evidence that

managerial incentives encourage tax avoidance as a risk-taking, value-enhancing activity aimed at increasing future cash flows (Armstrong et al. 2015; Khan et al. 2017; Rego and Wilson 2012; Davis et al. 2016). Shareholders themselves may reinforce such behaviour by providing equity-based risk incentives (Rego and Wilson 2012). Some studies further argue that corporate taxation can deter innovation and investment, implying a positive association between CSR and tax avoidance (Djankov et al. 2008).

In contrast, decoupling theory suggests that firms may symbolically adopt sustainability initiatives, including SDG reporting, without integrating them into core operations (Aboud et al. 2024; Mayberry and Watson 2021; Crilly et al. 2012). Under this view, companies may publicly endorse SDGs to enhance legitimacy while simultaneously engaging in tax avoidance that undermines public resources, including those needed for climate action. As a result, sustainability disclosure may not necessarily constrain tax avoidance, challenging the assumption that SDG engagement leads to responsible behaviour. Consistent with this, empirical evidence on the relationship between sustainability reporting and tax avoidance remains mixed. While some studies find a negative association (Hoi et al. 2013; Laguir et al. 2015), others show that tax-aggressive firms increase sustainability disclosures to mitigate reputational risk and gain legitimacy (Lanis and Richardson 2012).

Building on this debate, this study focuses specifically on the relationship between SDG disclosure and corporate tax avoidance, providing a clearer setting to test the competing stakeholder, shareholder and decoupling perspectives. This approach allows examination of the tension between profit maximisation and sustainability commitments, including climate-related objectives. As sustainability increasingly drives long-term value creation (Edmans 2023), the SDGs offer a globally recognised framework for ESG alignment and responsible investment. Notably, a substantial proportion of the world's largest firms reference the SDGs in corporate reporting and leadership statements (KPMG 2022). Unlike ESG metrics, which face criticism for inconsistency and greenwashing, the SDGs provide standardised, internationally accepted targets with clearer scope and comparability.

Using a sample of 7213 firms from 81 countries over 2019–2023, this study examines whether SDG disclosure is associated with corporate tax avoidance. SDG reporting captures firms' symbolic engagement with the 2030 Agenda, while tax avoidance reflects alignment with social responsibility. The findings show that stronger SDG disclosure is associated with lower levels of tax avoidance. These results remain robust across alternative specifications, measurements and endogeneity controls. Overall, the evidence supports a broader view of sustainability in which paying taxes is a central mechanism for stakeholder value creation and financing the green transition.

This study contributes to the sustainability literature in several important ways. First, it extends the emerging body of research on SDGs by providing large-scale international evidence on SDG disclosure practices. While prior studies largely focus on the determinants or descriptive patterns of SDG reporting, often within specific institutional settings, this study offers cross-country evidence on how SDG disclosure relates to substantive

corporate behaviour. In doing so, it responds to recent calls for research that moves beyond symbolic sustainability reporting towards outcomes relevant for environmental and social value creation (Haji et al. 2023; Pizzi et al. 2021). Second, the study advances the sustainability–tax avoidance literature by shifting the focus from generic CSR and ESG metrics to SDGs as a standardised, outcome-oriented sustainability framework. Unlike ESG indicators—which have been criticised for inconsistency, lack of comparability and greenwashing—SDGs provide globally agreed, time-bound targets that distinguish between sustainability commitments and the achievement of measurable milestones (Edmans 2023). By using SDG disclosure as a proxy for firms’ sustainability orientation, this study provides novel evidence that stronger engagement with the SDG framework is associated with lower levels of corporate tax avoidance, supporting the stakeholder view that tax compliance is integral to sustainable business strategy.

Third, this study empirically tests competing theoretical perspectives—stakeholder, shareholder and decoupling views—within a unified SDG–tax avoidance framework. While prior research offers mixed and often contradictory evidence on whether sustainability practices constrain or coexist with aggressive tax behaviour, the findings suggest that SDG disclosure is, on average, associated with more responsible fiscal conduct rather than purely symbolic adoption. This contributes to the decoupling debate by demonstrating that SDG reporting can reflect substantive alignment between sustainability objectives and corporate decision-making.

Finally, the study offers important strategic and policy implications central to BSE’s focus on sustainability transitions. By framing tax avoidance as a sustainability and climate-financing issue, the findings highlight the role of corporate taxation in supporting public investment in environmental protection and climate mitigation. Given the substantial global financing gap for achieving the SDGs, the results suggest that encouraging SDG-aligned reporting may enhance transparency, reduce aggressive tax practices and strengthen the mobilisation of resources needed for the green transition. This positions SDGs not only as a reporting framework but also as a governance mechanism that links corporate strategy with broader environmental and societal outcomes.

The paper is structured as follows. Section 2 presents the relevant literature and hypothesis development, and Section 3 describes the sample and model specification. Section 4 reports the results and robustness analyses, while Section 5 concludes the paper.

2 | Literature Review

2.1 | SDG Reporting: Standardisation, Credibility and Disclosure Quality

The inclusion of the SDGs into corporate practice has emerged as an important aspect of sustainability reporting. The SDG framework has enabled firms to gain international recognition as a means of communication about their contributions to sustainable development through alignment with the SDGs’ goals,

targets and metrics (UN 2015; Paetzold et al. 2022; Patuelli et al. 2022). In contrast to conventional CSR initiatives, the SDGs have established a standardised approach that may enhance the clarity, consistency and accountability of the information regarding sustainability (Haji et al. 2023; Pizzi et al. 2021). Notably, the significance of adopting a standardised approach stems from the use of sustainability data in decision-making processes by stakeholders in assessing the impact of corporate practices on sustainable development and value creation (Edmans 2023; Nicolò et al. 2025).

The distinction between SDG reporting and broader ESG or CSR reporting is therefore central to this study. ESG ratings and CSR indicators have frequently been criticised for inconsistency, limited comparability and measurement divergence, with different providers often producing different evaluations of the same company (Edmans 2023; García-Sánchez et al. 2022; Eliwa et al. 2023). By contrast, the SDGs constitute a more explicit normative framework that connects corporate sustainability narratives to internationally agreed development priorities. At the same time, ESG and SDG reporting should not be viewed as unrelated frameworks. Rather, ESG metrics may help firms operationalise and monitor their contribution to selected SDGs, while the SDGs provide the broader agenda within which corporate sustainability performance can be interpreted (Paetzold et al. 2022; Beretta et al. 2025).

Prior research shows that SDG reporting is still evolving and remains far from fully institutionalised. Early studies suggest that firms increasingly refer to the SDGs in annual, sustainability and integrated reports, but that the depth, quality and strategic integration of these disclosures vary considerably (Rosati and Faria 2019a; Rosati and Faria 2019b; Pizzi et al. 2021; Bose and Khan 2022; Haji et al. 2023). For instance, Pizzi et al. (2021) introduce an SDG reporting score and show that corporate governance attributes, including board independence, are associated with firms’ contribution to the 2030 Agenda. Rosati and Faria (2019a, 2019b) document that organisational and institutional factors, such as firm size, intangible assets, gender diversity, board age and country-level legal, political and cultural characteristics, are relevant determinants of early SDG reporting adoption. Similarly, Bose and Khan (2022) show that SDG reporting is more developed in countries with national sustainability regulation and stronger SDG performance.

Other studies have focused on the content and quality of SDG disclosure. Moussa et al. (2022) document substantial variability in UK environmental target disclosure and show that environmental governance mechanisms and assurance can influence reporting practices. Hummel and Szekeley (2022), using a sample of European listed firms, distinguish between explicit references to the SDGs and the implicit prevalence of SDG topics, highlighting that references to the SDGs do not necessarily imply high-quality or decision-useful disclosure. Nicolò et al. (2022) examine SDG disclosure through integrated reporting and provide evidence on how companies incorporate SDG-related information into their reporting architecture. More recently, Nicolò et al. (2025) show that SDG disclosure can improve the information environment by enhancing analyst forecast quality, suggesting that SDG disclosure may have capital-market relevance when it is sufficiently credible and informative.

A central concern in this emerging literature is whether corporate SDG disclosure reflects substantive engagement or symbolic legitimacy management. Silva (2021), drawing on legitimacy theory, shows that firms may use SDG disclosure to communicate their contribution to sustainable development and manage legitimacy pressures. Heras-Saizarbitoria et al. (2022) provide evidence that organisational engagement with the SDGs may involve cherry-picking and superficial adoption, raising the risk of SDG-washing. Manes-Rossi and Nicolò (2022) similarly distinguish between symbolic and substantive approaches to SDG reporting in the energy sector and suggest that, although the SDGs are increasingly embedded in disclosure practices, symbolic disclosure may still prevail over substantive changes. Nicolò et al. (2024) further contribute to this debate by examining whether SDG disclosure reflects underlying sustainability performance among UN Global Compact participants, while Beretta et al. (2025) show that SDG reporting can be associated with improvements in sustainability performance, thereby contributing to the ‘talking to walk’ debate. Finally, Nicolò and Cervilla-Bellido (2025) extend the SDG disclosure literature to social media, showing that disclosure channels themselves can shape how firms communicate with stakeholders about the SDGs.

Taken together, this body of research suggests two important points. First, SDG reporting can enhance transparency and comparability and may provide stakeholders with useful information about corporate sustainability priorities (Haji et al. 2023; Pizzi et al. 2021; Nicolò et al. 2025). Second, SDG reporting may also be selective, incomplete or symbolic, especially when firms emphasise easily communicable goals while avoiding difficult trade-offs or material impacts (Silva 2021; Heras-Saizarbitoria et al. 2022; Manes-Rossi and Nicolò 2022; Hummel and Szekely 2022). This tension between substantive and symbolic SDG engagement is especially relevant for our research setting because corporate tax avoidance offers a concrete behavioural outcome through which the credibility of SDG engagement can be assessed.

2.2 | SDG Reporting and Tax Avoidance

Corporate tax avoidance and sustainable development are closely connected, yet their relationship has received comparatively limited attention in the SDG literature (Bird and Davis-Nozemack 2018). The achievement of the SDGs requires substantial and sustained financing, and taxation remains a fundamental mechanism through which governments mobilise domestic resources for public goods, infrastructure, health, education and climate-related investment. Corporate tax avoidance can therefore undermine the fiscal capacity of states and weaken the social contract between business and society (Sikka 2010; Watson 2015; Zucman 2013). From this perspective, tax avoidance is not merely a technical accounting or financial decision, but a sustainability issue with direct implications for the financing of the 2030 Agenda and the green transition.

Most prior studies have examined the relationship between CSR or ESG performance and corporate tax avoidance rather than the specific role of SDG disclosure (Huseynov

and Klamm 2012; Lanis and Richardson 2012; Lanis and Richardson 2015; Col and Patel 2019). This literature provides mixed evidence. On the one hand, Hoi et al. (2013) show that firms with irresponsible CSR behaviour are more likely to engage in aggressive tax avoidance, suggesting that tax avoidance may reflect a broader corporate culture problem. Laguir et al. (2015) also report that specific CSR dimensions are associated with lower corporate tax aggressiveness. These findings are consistent with the view that firms genuinely committed to social responsibility should avoid aggressive tax planning because such behaviour conflicts with stakeholder expectations and reduces resources available for social and environmental investments.

On the other hand, some studies suggest that CSR and tax avoidance may be positively related or strategically disconnected. Lanis and Richardson (2012) find that tax-aggressive corporations disclose more CSR information, which they interpret as an attempt to manage legitimacy concerns surrounding tax behaviour. Similarly, Davis et al. (2016) argue that CSR and tax payments can be either complements or substitutes. If firms treat taxes as part of their social contribution, CSR and tax payments should be complementary and tax avoidance should decrease as sustainability commitment increases. Conversely, if tax payments are viewed as an inefficient allocation of resources compared with privately controlled CSR investment, CSR engagement and tax avoidance may act as substitutes. This ambiguity is consistent with broader evidence on managerial incentives and tax planning, which shows that tax avoidance can be influenced by executives’ risk incentives, private benefits and shareholder-value considerations (Dyregang et al. 2010; Armstrong et al. 2015; Rego and Wilson 2012; Khan et al. 2017; Baghdadadi et al. 2022).

Reputational considerations further complicate the relationship between sustainability disclosure and tax behaviour. Tax avoidance can generate public criticism, media scrutiny, regulatory attention and loss of stakeholder trust (Dowling 2014; Graham et al. 2014; Benkraiem et al. 2021). Firms that disclose strong sustainability commitments may therefore face higher reputational costs if they are perceived to avoid contributing their fair share of taxes. In this sense, SDG reporting may increase accountability by making corporate commitments more visible and exposing inconsistencies between public sustainability narratives and fiscal conduct (Lii and Lee 2012; Graham et al. 2014). However, the same visibility may also encourage firms to use sustainability disclosure strategically to divert attention from contested practices, including aggressive tax avoidance (Lanis and Richardson 2012; Dowling 2014).

The SDG framework provides a particularly suitable context for revisiting this debate. CSR is usually broad, voluntary and firm-specific, whereas the SDGs provide a globally accepted framework that explicitly links corporate actions to societal outcomes and public financing needs (Erin et al. 2022; Paetzold et al. 2022; Sinha et al. 2021). The COVID-19 pandemic further highlighted the importance of resilient public finances, social protection and sustainable development strategies (Alam et al. 2021). If firms use the SDGs as a substantive framework for integrating sustainability into strategy, governance and reporting, SDG disclosure should be associated

with more responsible tax behaviour. Conversely, if SDG disclosure is primarily symbolic, selective or decoupled from operational decisions, it may not constrain tax avoidance and may even coexist with aggressive fiscal strategies.

Recent SDG disclosure studies make this distinction especially salient. Evidence of cherry-picking, superficial engagement and SDG-washing suggests that the mere presence of SDG references cannot automatically be interpreted as substantive sustainability commitment (Silva 2021; Heras-Saizarbitoria et al. 2022; Manes-Rossi and Nicolò 2022; Hummel and Szekely 2022). Yet recent evidence also indicates that SDG reporting may be associated with better information environments and improved sustainability performance when it is embedded in credible reporting practices (Nicolò et al. 2025; Beretta et al. 2025). Accordingly, the relationship between SDG disclosure and tax avoidance is empirically important because it allows us to test whether SDG engagement is associated with substantive behavioural alignment beyond disclosure itself.

By focusing on firm-level SDG disclosure rather than generic CSR or ESG measures, this study extends the prior literature in three ways. First, it examines whether a globally standardised and outcome-oriented sustainability framework is associated with a concrete corporate behaviour that directly affects the financing of sustainable development. Second, it contributes to the literature on CSR, ESG and tax avoidance by shifting the analysis from broad sustainability indicators to SDG-specific disclosure. Third, it speaks directly to the symbolic versus substantive disclosure debate by assessing whether firms that disclose stronger SDG engagement behave consistently in an area—taxation—that is central to the public financing of the SDGs and climate action.

3 | Hypotheses Development

To clarify the theoretical logic of the study, we develop three competing hypotheses grounded in stakeholder theory, shareholder theory and decoupling theory. These perspectives imply different relationships between SDG disclosure and tax avoidance and therefore provide a coherent framework for interpreting the empirical analysis.

3.1 | Stakeholder View: SDG Disclosure as Substantive Commitment to Fiscal Responsibility

Stakeholder theory argues that firms are accountable not only to shareholders but also to a broad set of stakeholders, including employees, customers, communities, governments and society at large. From this perspective, paying a fair share of taxes represents an important contribution to the public goods and institutional systems from which firms themselves benefit, including infrastructure, education, health care, legal enforcement and climate-related investments (Sikka 2010; Lanis and Richardson 2015; Davis et al. 2016). Tax avoidance is therefore inconsistent with a substantive sustainability orientation because it reduces the resources available for governments to finance sustainable development and climate action (Bird and Davis-Nozemack 2018; Watson 2015).

Under the stakeholder view, SDG disclosure can operate as a mechanism of transparency and accountability. Firms that publicly align themselves with the SDGs expose themselves to stakeholder scrutiny and may internalise broader social expectations regarding responsible corporate conduct (Pizzi et al. 2021; Haji et al. 2023; Nicolò et al. 2025). If SDG engagement is substantive, it should extend beyond environmental and social narratives to include fiscal decisions, because taxation directly affects the financing of the SDGs. In this setting, avoiding taxes would create an inconsistency between the firm's public commitment to the 2030 Agenda and its private contribution to public revenues.

Prior evidence supports this logic. Hoi et al. (2013) find that irresponsible CSR behaviour is associated with higher tax avoidance, while Laguir et al. (2015) and Lanis and Richardson (2015) show that CSR-related commitments can be associated with lower tax aggressiveness. Recent SDG studies also indicate that SDG disclosure may have substantive effects when it is linked to accountability, information quality and sustainability performance (Nicolò et al. 2025; Beretta et al. 2025). Accordingly, if SDG disclosure reflects genuine engagement with sustainability, firms with higher SDG disclosure should be less likely to engage in tax avoidance.

H1. *SDG disclosure is negatively related to tax avoidance (Stakeholder view).*

3.2 | Shareholder View: SDG Disclosure and Tax Avoidance as Potentially Compatible Strategies

The shareholder view offers a competing prediction. According to this perspective, managers are expected to maximise shareholder wealth, and tax avoidance may be perceived as a legitimate strategy for increasing after-tax cash flows and firm value, provided that expected benefits exceed the potential costs (Davis et al. 2016; Mankiw 2013). Corporate tax planning can therefore be viewed as a financial strategy rather than as a sustainability issue. This logic is consistent with studies showing that managerial incentives, risk-taking preferences and shareholder pressure can encourage tax avoidance (Armstrong et al. 2015; Rego and Wilson 2012; Khan et al. 2017; Baghdadi et al. 2022).

From this perspective, SDG disclosure and tax avoidance need not be inconsistent. Firms may disclose SDG engagement to improve legitimacy, stakeholder relations and access to sustainable finance, while simultaneously pursuing tax planning strategies that enhance financial performance. Indeed, Davis et al. (2016) suggest that CSR and tax payments may act as substitutes: Firms may prefer to allocate resources to visible sustainability initiatives rather than to tax payments, which they may perceive as a less efficient or less controllable use of corporate resources. Similarly, some prior evidence suggests that firms with CSR activities may still engage in aggressive tax avoidance (Lanis and Richardson 2012; Abdelfattah and About 2020).

The SDG framework may even reinforce this possibility if firms use SDG disclosure instrumentally to signal sustainability commitment and attract stakeholders while preserving shareholder-oriented fiscal strategies. In such a case, SDG disclosure would

not reduce tax avoidance; rather, firms with higher SDG disclosure might also engage in more tax avoidance if the resources saved through tax planning are used to support strategic investments, innovation or visible sustainability initiatives (Djankov et al. 2008; Davis et al. 2016). Therefore, the shareholder view predicts a positive association between SDG disclosure and tax avoidance.

H2. *SDG disclosure is positively related to tax avoidance (Shareholder view).*

3.3 | Decoupling View: Symbolic SDG Disclosure and Disconnected Tax Behaviour

Decoupling theory provides a third theoretical explanation. It suggests that organisations may formally adopt practices, policies or disclosures to conform to external expectations without integrating them into core decision-making processes (Crilly et al. 2012; Mayberry and Watson 2021; Aboud et al. 2024). In the context of sustainability reporting, firms may publicly communicate SDG engagement to gain legitimacy while maintaining business practices that are not fully aligned with the principles of sustainable development.

This perspective is strongly connected to the recent SDG reporting literature. Silva (2021) shows that SDG disclosure can be used to manage legitimacy. Heras-Saizarbitoria et al. (2022) warn that organisational SDG engagement may involve cherry-picking and SDG-washing. Manes-Rossi and Nicolò (2022) show that, even in sectors where sustainability pressures are high, SDG reporting may remain more symbolic than substantive. Hummel and Szekely (2022) similarly highlight that explicit references to the SDGs do not necessarily imply high-quality SDG disclosure. These studies suggest that firms may disclose SDG support without changing the underlying decisions that matter for social and environmental outcomes.

Applied to tax avoidance, decoupling theory predicts no systematic relationship between SDG disclosure and fiscal behaviour. If SDG reporting is ceremonial, firms may disclose SDG engagement to satisfy stakeholders while tax decisions continue to be driven by financial, managerial or institutional considerations. Under this view, SDG disclosure is neither a credible indicator of responsible tax conduct nor necessarily a cover for tax aggressiveness. It is simply disconnected from tax strategy. Therefore, the decoupling view predicts that SDG disclosure and tax avoidance are not meaningfully related.

H3. *SDG disclosure is not related to tax avoidance (Decoupling view).*

4 | Sample and Model Specification

4.1 | Sample

To examine the impact of SDG disclosure on tax avoidance, we employ information from a number of sources. In particular, we draw firm-level SDG disclosure data from Eikon Refinitiv's

'Mapping to the UN Sustainable Development Goals' tool, which provides standardised, annually updated information on firm-level SDG support across all 17 goals. Firm-level financial characteristics are also sourced from Eikon Refinitiv, while country-level institutional and macroeconomic variables are obtained from the World Bank and the OECD. The timeframe of 2019–2023 is determined by the availability of SDG disclosure data in Refinitiv, which began systematic coverage of firm-level SDG reporting from 2019 onwards.

Our sampling approach implements several inclusion and exclusion criteria, which are apply as follows. First, consistent with standard practice in the tax avoidance literature, we exclude financial and insurance firms (SIC codes 6000–6999), as their capital structures, regulatory frameworks and effective tax rate calculations differ fundamentally from non-financial firms, rendering direct comparisons inappropriate (Hoi et al. 2013). Second, we remove firm-year observations with negative pre-tax income, as negative income mechanically distorts effective tax rate calculations and does not reflect genuine tax planning behaviour. Third, following Dyreng et al. (2010) and Hope et al. (2013), we winsorise effective tax rates greater than one to equal one and winsorise all continuous variables at the 1st and 99th percentiles to mitigate the influence of outliers. Fourth, we retain only firm-year observations for which complete SDG disclosure data are available across all 17 goals, as partial disclosure records would introduce measurement error into our core independent variable.

After applying these criteria sequentially, our final working sample comprises 7213 unique firms operating across 81 countries and 68 industries, yielding an unbalanced panel of 22,657 firm-year observations. The geographic and industry distributions of the sample are reported in Tables 2 and 4, respectively, and descriptive statistics are provided in Table 2.

4.2 | Model Specification

In order to assess whether and to what extent SDG disclosure influences tax avoidance, we derive a model of the following form:

$$\text{Tax avoidance} = f(\text{SDG_INDEX}, \text{Controls}) \quad (1)$$

where *Tax Avoidance* refers to the tax avoidance measure taken into consideration; *SDG_INDEX* refers to the proxy used to capture SDG disclosure; and *Controls* represent the control variables included to capture firm level characteristics. The model is estimated using ordinary least squares (OLS) with robust standard errors, including *Country*, *Industry* and *Year* fixed effects.

More precisely, *Tax Avoidance* is the capacity to pay a minimal amount of cash taxes per dollar of pre-tax income over extended periods (Atwood et al. 2012; Dyreng et al. 2008, 2010). Following prior academic research (e.g., Atwood et al. 2012; Huseynov and Klamm 2012; Hoi et al. 2013) capture tax avoidance (*TAVOID*¹) by calculating the ratio of the current tax expenses to the pre-tax accounting income. We rely on the 5-year average values for both measures in order to eliminate the effect of yearly fluctuations.²

The core variable of interest in our study, *SDG_INDEX*, captures the extent to which firms disclose their support towards the SDGs as outlined by the 2030 Agenda. We draw this information from Eikon Refinitiv's 'Mapping to the UN Sustainable Development Goals' tool, which provides detailed information on whether a firm has disclosed its support towards each and every one of the 17 SDGs. More precisely, for each SDG, there is a Boolean variable that reflects whether a firm has expressed its support to any of the 17 SDGs in one of its annual or sustainability reports. If support has been stated towards a particular SDG, then the respective variable takes the value 'TRUE'; otherwise, it takes the value 'FALSE'. As a first step, we draw all 17 variables that reflect the support of each SDG goal.³ For example, Amazon Inc. has been assigned 'TRUE' for SDG 1 (*No poverty*). The following summary is provided by information drawn from Amazon's 2021 Sustainability Report⁴: 'At Amazon, there are multiple ways our sustainability work aligns with these global goals. The following shows how our programs correspond to the UN SDGs: 1 No Poverty (...) Community At Amazon, we are focused on leveraging our scale and assets for good to strengthen communities where our employees and customers live and work. We work side by side with community partners to find solutions to some of the world's most pressing challenges and build long-term, innovative programs that have a lasting, positive impact. (...) We also committed a total of \$6.2 million through our Right Now Needs Fund, a flexible fund designed to meet the basic needs of schoolchildren and help eliminate barriers to learning. These funds have already provided support to more than 28,000 students with food, shelter, clothing, school supplies, and hygiene items in the states of Washington and Virginia.' Amazon's support towards this goal is also evident on the relevant SDG infographic available in the Appendix of the same report (pp. 96). From the above, there is adequate evidence of Amazon's support towards this goal, hence being assigned the value 'TRUE' for the variable SDG1. On the other hand, for SDG 6 (*Clean Water and Sanitation*), the assigned value is 'FALSE' as there is not enough evidence suggesting that Amazon is actively supporting this goal.

The next step is to aggregate the individual SDG variables to an overall index for each firm per year. Hence, for the core analysis of this study, we employ the aggregated index (*SDG_INDEX*), which reflects a firm's overall performance against the 17 SDGs. To construct this index, we first convert each of the Boolean variables to a binary form. We recode each individual SDG variable from taking the values 'TRUE/FALSE' to '1/0', where 'TRUE' is re-coded to '1' and 'FALSE' is re-coded to '0'. We construct the overall index on the basis of the summated scores of each individual SDG value per firm. The *SDG_INDEX* takes values between 0 and 17, where lower values reflect lower support and higher values reflect higher support towards the SDGs.⁵ For example, the *SDG_INDEX* for Alibaba Group Holding Ltd. is equal to 17 for the years between 2019 and 2021. This means that Alibaba has been allocated a score of 1 for each of the 17 SDGs for these years reflecting its support for all 17 goals. On the other hand, MAZDA Motor Corp has an overall score of 10 for 2021, suggesting that there is evidence that the company supports 10 out of the 17 SDGs. In additional analysis we disaggregate the *SDG_INDEX* to reflect each SDG Goal from 1 to 17 (SDG1–SDG17).⁶

Finally, following prior literature (e.g., Atwood et al. 2012), we account for firm-level (Firm) characteristics in our baseline analysis. The first set of controls relate to firm-level characteristics and capture the following aspects: (i) profitability (Return on Assets ratio), (ii) leverage (Total long-term debt to total assets), (iii) market capitalisation (Natural logarithm of firm's market capitalisation), (iv) market-to-book ratio (Price to book ratio) and size (Natural logarithm of total assets). The full definition of all variables can be found in Table 1.

5 | Empirical Results and Discussion

5.1 | Descriptive Statistics

Panel A of Table 2 provides the descriptive statistics for standard measure of tax avoidance, as well as several alternative tax avoidance measures, the SDG index and firm-level and country-level variables. Consistent with prior studies, the average values of the tax avoidance proxy are equal to -0.209 , with a standard deviations equal of 0.101 (Atwood et al. 2012; Hope et al. 2013). For the alternative tax avoidance measures, the average value for *TAVOID_CASH* is 0.118 , *TAVOID_ADJ* is 0.009 , *TAVOID_IND* is 0.009 and *TAVOID_SIZE* is 0.001 . Panel B of Table 2 shows information on SDG index and other control variables. For the core variable of interest, the average value for *SDG_INDEX* is 5.258 . In order to provide further insight with regard to trends on SDG support, we tabulate the average of the *SDG_INDEX* per year (Table 3) and provide a graph that depicts the average score per industry (Figure 1) and per country (Figure 2). We notice a steady increase from 2019 onwards, with a noticeable drop in 202. Figure 1 depicts the average *SDG_INDEX* per industry. The red reference line on the graph reflects the working sample average. From a glance, Aerospace and Defence, Healthcare and Technology and Software appear to be amongst those industries that disclose less towards the SDGs. In contrast, Automobiles, Technology Hardware and Storage and Electric Utilities appear to be amongst the top industries engaging their support towards SDGs. Turning to Figure 2, the graph depicts the average *SDG_INDEX* per country. As with Figure 1, the reference line reflects the working sample's average. There are several countries where the average SDG index is equal to zero (Bahamas, Bulgaria, Gibraltar, Panama, Sudan, Tunisia and Uganda). The countries that appear to be at the lower end of the list, with considerably lower than average SDG score, are Isle of Man, Qatar and Oman, whereas there is an adequate number of countries that have an above mean SDG index value. Countries such as the Czech Republic, Nigeria and Ukraine have strikingly high average scores (e.g., Romania, Slovenia). The latter should be considered with caution, as the figures are mainly driven by a very small number of firms operating in these countries that score high in the SDG score. Finally, Table 4 shows the Pearson correlation among variables.

5.2 | Baseline Results

We start our investigation by assessing the effect of SDG disclosure on corporate tax avoidance. Column 1 of Table 5 presents the baseline results. We control for firm-level characteristics and time, country and industry fixed effects. Consistent with

TABLE 1 | Variable description.

Variables	Description	Source
<i>Tax Avoidance variables</i>		
TAVOID	Current tax expenses divided by the pre-tax accounting income.	Eikon Refinitiv and authors' calculations
TAVOID_CASH	Difference between pre-tax earnings tax, adjusted at the home-country's statutory corporate tax rate and the taxes paid, as a fraction of the firm's pre-tax earnings.	Eikon Refinitiv and authors' calculations
TAVOID_ADJ	Firm's mean industry-size GAAP ETR minus the firm's GAAP ETR	Eikon Refinitiv and authors' calculations
TAVOID_IND	Firm's mean industry GAAP ETR minus the firm's GAAP ETR	Eikon Refinitiv and authors' calculations
TAVOID_SIZE	Firm's mean firm size GAAP ETR minus the firm's GAAP ETR	Eikon Refinitiv and authors' calculations
<i>SDG reporting variables</i>		
SDG_INDEX	Overall index of firm-level SDG reporting. It is calculated by summing up variables SDG1–SDG17. Higher values reflect higher SDG support and vice versa.	Eikon Refinitiv and authors' calculations
SDG1	Takes '1' if a company provides evidence supporting SDG Goal 1 ('No poverty'), '0' otherwise.	Eikon Refinitiv
SDG2	Takes '1' if a company provides evidence supporting SDG Goal 2 ('Zero hunger'), '0' otherwise.	Eikon Refinitiv
SDG3	Takes '1' if a company provides evidence supporting SDG Goal 3 ('Good health and well-being'), '0' otherwise.	Eikon Refinitiv
SDG4	Takes '1' if a company provides evidence supporting SDG Goal 4 ('Quality Education'), '0' otherwise.	Eikon Refinitiv
SDG5	Takes '1' if a company provides evidence supporting SDG Goal 5 ('Gender equality'), '0' otherwise.	Eikon Refinitiv
SDG6	Takes '1' if a company provides evidence supporting SDG Goal 6 ('Clean water and sanitation'), '0' otherwise.	Eikon Refinitiv
SDG7	Takes '1' if a company provides evidence supporting SDG Goal 7 ('Affordable and clean energy'), '0' otherwise.	Eikon Refinitiv
SDG8	Takes '1' if a company provides evidence supporting SDG Goal 8 ('Decent work and economic growth'), '0' otherwise.	Eikon Refinitiv
SDG9	Takes '1' if a company provides evidence supporting SDG Goal 9 ('Industry, innovation and infrastructure'), '0' otherwise.	Eikon Refinitiv
SDG10	Takes '1' if a company provides evidence supporting SDG Goal 10 ('Reduced inequality'), '0' otherwise.	Eikon Refinitiv
SDG11	Takes '1' if a company provides evidence supporting SDG Goal 11 ('Sustainable cities and communities'), '0' otherwise.	Eikon Refinitiv
SDG12	Takes '1' if a company provides evidence supporting SDG Goal 12 ('Responsible Consumption and Production'), '0' otherwise.	Eikon Refinitiv
SDG13	Takes '1' if a company provides evidence supporting SDG Goal 13 ('Climate Action'), '0' otherwise.	Eikon Refinitiv

(Continues)

TABLE 1 | (Continued)

Variables	Description	Source
SDG14	Takes '1' if a company provides evidence supporting SDG Goal 14 (<i>'Life below water'</i>), '0' otherwise.	Eikon Refinitiv
SDG15	Takes '1' if a company provides evidence supporting SDG Goal 15 (<i>'Life on land'</i>), '0' otherwise.	Eikon Refinitiv
SDG16	Takes '1' if a company provides evidence supporting SDG Goal 16 (<i>'Peace and justice, strong institutions'</i>), '0' otherwise.	Eikon Refinitiv
SDG17	Takes '1' if a company provides evidence supporting SDG Goal 17 (<i>'Partnerships to achieve the Goal'</i>), '0' otherwise.	Eikon Refinitiv
<i>Firm-level variables</i>		
ROA	Net income divided by total assets.	Eikon Refinitiv
LEVERAGE	Total long-term debt divided by total assets.	Eikon Refinitiv
MARKET_CAP	Natural logarithm of the firm's market capitalisation.	Eikon Refinitiv
PRICE_TO_BOOK	Closing price divided by book value per share.	Eikon Refinitiv
SIZE	Natural logarithm of total assets.	Eikon Refinitiv
<i>Country-level variables</i>		
CITR	Statutory corporate income tax rate.	OECD
GDP_GR	Annual percentage of GDP growth rate.	World Bank
STMCAP	Market capitalisation of domestic listed companies as a percentage of GDP.	World Bank
FDI	Net flows of foreign direct investment as a percentage of GDP	World Bank
INSTITUTIONAL	Index of a country's overall institutional environment using the first Principal Component of the following dimensions of the WGI dataset: Rule of Law, Control of corruption and Regulatory quality.	World Bank and authors' calculations

Hypothesis H1 (*Stakeholder view*), we find a negative and significant coefficient for the *SDG_Index*, indicating that a higher level of SDG disclosure decreases *TAVOID*. From an economic standpoint, a one unit increase in *SDG_Index* is related to a 0.3 percentage point decrease in *TAVOID_1*. Moreover, performing a marginal analysis, we are able to infer that a one standard deviation increase in the *SDG_Index* decreases the likelihood of a firm engaging in tax avoidance by 2%.

Our results support the notion that firms with strong sustainability cultures are less likely to engage in aggressive tax strategies (Lanis and Richardson 2012; Hoi et al. 2013). Our findings suggest that SDGs and taxes behave as complements rather than substitutes. Companies firmly committed to SDGs are less likely to engage in tax avoidance, as this practice would conflict with their values. In addition to the above, our findings also support long-term sustainability, which implies that achieving short-term financial benefits through tax avoidance practices is not aligned with the principles of CSR, which emphasise a holistic and sustainable approach to business. Thus, commitments to responsible tax practices are part of firms' overall commitment

to CSR. However, our findings contradict the strand of research suggesting that firms may deliberately engage in CSR to cover up their aggressive tax practices and avoid the possible negative attention or regulatory action through gaining legitimacy by providing higher SDGs (Davis et al. 2016). Finally, regarding the control variables, our results are mixed. In particular, we find that smaller and more profitable firms, with higher leverage and lower price to book ratio, are less likely to engage in tax avoidance in both models.

5.3 | Robustness Analysis

In this section, we present the results of additional analysis conducted to ensure the robustness of the baseline results presented in the previous section. In particular, we re-estimate our baseline model by: (i) enhanced baseline model specification and estimation methods, (ii) incorporating alternative tax avoidance measures, (iii) adjusting our working sample and (iv) disaggregating the SDG index. The results are presented in Tables, 6 and 7.

TABLE 2 | Descriptive statistics.

Descriptive statistics					
Variable	Obs	Mean	Std. dev.	Min	Max
Panel A: Tax avoidance measures					
TAVOID	22,657	-0.210	0.101	-0.405	-0.011
TAVOID_CASH	20,440	0.118	0.298	-0.367	0.844
TAVOID_ADJ	22,657	0.009	0.087	-0.172	0.170
TAVOID_IND	22,657	0.010	0.088	-0.174	0.175
TAVOID_SIZE	22,657	0.011	0.101	-0.185	0.206
Panel B: SDG Index and Control variables					
SDG_INDEX	22,657	5.258	5.757	0.000	17.000
ROA	22,657	0.071	0.060	0.002	0.326
LEVERAGE	22,657	0.178	0.151	0.000	0.645
MARKET_CAP	22,657	21.842	1.581	18.078	25.966
PRICE_TO_BOOK	22,657	3.613	4.582	0.300	29.980
SIZE	22,657	21.801	1.621	18.076	25.807
CITR	21,922	22.754	5.449	8.500	40.550
GDP_GR	22,028	2.567	4.009	-10.360	9.691
FDI	22,014	1.14e+11	1.26e+11	-1.17e+11	3.88E+11
STMCAP	18,709	149.215	211.367	16.880	1472.860
INSTITUTIONAL	22,559	1.602	1.384	-1.176	3.551

Note: This table shows the summary statistics for the variables included in our analysis. Panel A presents the summary statistics for the alternative Tax Avoidance measures used. Panel B presents the summary statistics for the SDG Index and all other control variables. Variable definitions are presented in Table 1.

5.3.1 | Enhanced Baseline Model Specification and Estimation Methods

Given the international nature of our sample, we re-estimate our baseline model by incorporating country level controls. We follow empirical evidence that suggests that certain country-level factors influence corporate tax activity (Atwood et al. 2012). First, we include a proxy that captures a country's economic growth as measured by GDP growth (*GDP_GR*). Moreover, we account for the extent of a country's capital market development by considering the country's stock market capitalisation adjusted by the country's GDP (*STMCAP*). Furthermore, we include the level of a country's foreign direct investment (*FDI*), as this may signal the availability of opportunities of earnings transfer or income shift from one jurisdiction to another. We additionally incorporate the statutory corporate tax rate (*CITR*), as an indicator of a country's overall tax environment. Finally, prior academic studies have highlighted the role of institutional characteristics in shaping corporate tax avoidance practices. We opt to include an aggregate measure of institutional quality. In particular, we use the World Bank's WGI in order to capture a country's overall institutional attainment. In particular, we apply a principal component analysis (PCA) in order to obtain an overall index of institutional quality. The core measure is derived by considering the following

dimensions provided by the WGI dataset, namely, *Rule of Law*, *Control of corruption* and *Regulatory quality*. All variables are defined in Table 1. The results of this exercise are reported in Column 2 of Table 5. As expected, the results of our baseline model remain intact when controlling for additional country-specific factors explaining tax avoidance.

In addition to the above exercise, we re-estimate our model by implementing a hierarchical linear model (HLM). This particular method is appropriate for analysing data in which observations are clustered into higher level groups (e.g., firms and countries, students and schools, etc.). Many studies within the accounting literature have incorporated such methods in order to address potential correlations that may exist (e.g., Dong and Stettler 2011; Beardsley et al. 2021) between observation levels due to a common effect. In the case of our study, we have observations at the firm level that can be clustered at a higher-level group (i.e., at the country level). Therefore, the analysis is conducted by assessing a two-level approach, where the first level of the analysis is a within-country analysis, and the second level of the analysis is a between-country analysis. The specification of the model in terms of control variables remains the same. Column 3 of Table 5 presents the results. Overall, the variable of interest remains the same in terms of sign and significance.

TABLE 3 | Summary statistics for SDG Index per year.

SDG_INDEX	2019	2020	2021	2022	2023	Total
0	2861	2306	2329	2168	962	10,626
1	18	23	24	23	8	96
2	22	22	20	17	15	96
3	54	78	77	77	30	316
4	71	112	134	161	80	558
5	113	152	221	210	91	787
6	152	202	248	278	113	993
7	118	182	274	291	123	988
8	114	182	264	288	126	974
9	119	203	289	314	120	1045
10	109	160	253	300	122	944
11	91	146	248	305	126	916
12	88	151	256	277	119	891
13	58	113	226	285	137	819
14	66	113	176	218	126	699
15	37	77	145	160	100	519
16	29	59	117	124	74	403
17	105	184	294	278	126	987
Total	4225	4465	5595	5774	2598	22,657

Note: This table shows the summary statistics for the SDG Index per year. Variable definitions are presented in Table 1.

5.3.2 | Alternative Tax Avoidance Measures

Given that there is no ‘well-accepted’ tax avoidance proxy in the tax avoidance literature, we employ some alternative measures, which allow us to capture the extent of tax aggressiveness, rather than a firm’s tax avoidance activity. First, we incorporate *TAVOID_CASH*, which is defined as the difference between pre-tax earnings, adjusted at the home country’s statutory corporate tax rate and the taxes paid, as a fraction of the firm’s pre-tax earnings (Atwood et al. 2012). Furthermore, we follow Balakrishnan et al. (2019) and generate a tax avoidance proxy (*TAVOID_ADJ*), which benchmarks a firm’s tax aggressiveness to that of similar-sized firms operating in the same industry. This measure further accounts for cross-sectional variation within a firm’s total tax planning. We also calculate two separate proxies based on the aforementioned measure where the tax aggressiveness measure is adjusted for industry (*TAVOID_IND*) and size only (*TAVOID_SIZE*). As per our main tax avoidance measures, higher values suggest more aggressive tax avoidance strategies. The results presented in Columns (1)–(4) in Table 6 show that both the sign and significance of our core variable of interest (*SDG_INDEX*) remain intact for all four variations of Tax Avoidance.

5.3.3 | Sample Alterations

A pattern observed in our working sample that may cause a potential concern relates to the higher presence of firms from certain countries. In particular, we record a higher percentage of firms in our working sample for the United States (16.27%) and China (15.19%). Although these figures are not extremely high in the sense that they do not cover more than 50% of our sample, they are still higher than those of most of the other countries in our sample. For instance, the representation of the other countries in our sample range from 0.01% (Bahamas) to 7.42% (Japan). Therefore, we re-estimate our baseline model by excluding firms from the United States and China. As evident from Columns (5) and (6) of Table 6, we confirm that the baseline results remain intact. We also extend our model to control for high versus low income countries, as there is an unbalanced distribution between firms located in high income countries versus low income countries that report their engagement on SDGs in our setting. Our results remain unchanged.⁷

5.3.4 | Disaggregating the SDG Index

The core variable of interest for this study (*SDG_INDEX*) has been computed by summing the scores of each individual variable that reflects individual SDG goals (SDG1–SDG17).⁸ Although the main objective of this study is to explore the aggregated effect that SDG reporting has on tax avoidance, we opt to explore whether and to what extent the reporting of each dimension of the SDG framework influences tax avoidance activities. Therefore, we re-estimate our baseline model by substituting the overall index with the individual dummy variables reflecting whether a company reports its support towards a specific SDG.⁹ The individual goals appear to exert a negative and statistically significant effect on tax avoidance.

5.4 | Addressing Endogeneity

A potential issue that may distort our baseline results could be the presence of endogeneity arising from reverse causality, omitted variable bias and/or measurement error. In particular, the core purpose of our research is to disentangle the effect that SDG reporting has on corporate tax avoidance. Nonetheless, one could argue regarding the direction of the examined effect that it could well be that a firm’s tax avoidance activity and strategies define whether and to what extent the firm engages and supports the SDG framework (*reverse causality*). Turning to *omitted variable bias*, a prime concern lies under the fact that SDG reporting may be driven by other, unobserved, factors for which we have not considered or cannot be considered simply because they cannot be measured. Despite saturating our models by incorporating a range of firm and country-level factors, it is still possible that certain aspects are not taken into account. Finally, *measurement error* of our explanatory variables may influence our baseline findings.

In order to eliminate any of the aforementioned concerns, we perform an *Instrumental Variable (IV)* analysis in order to mitigate any endogeneity related concerns. The endogenous variable

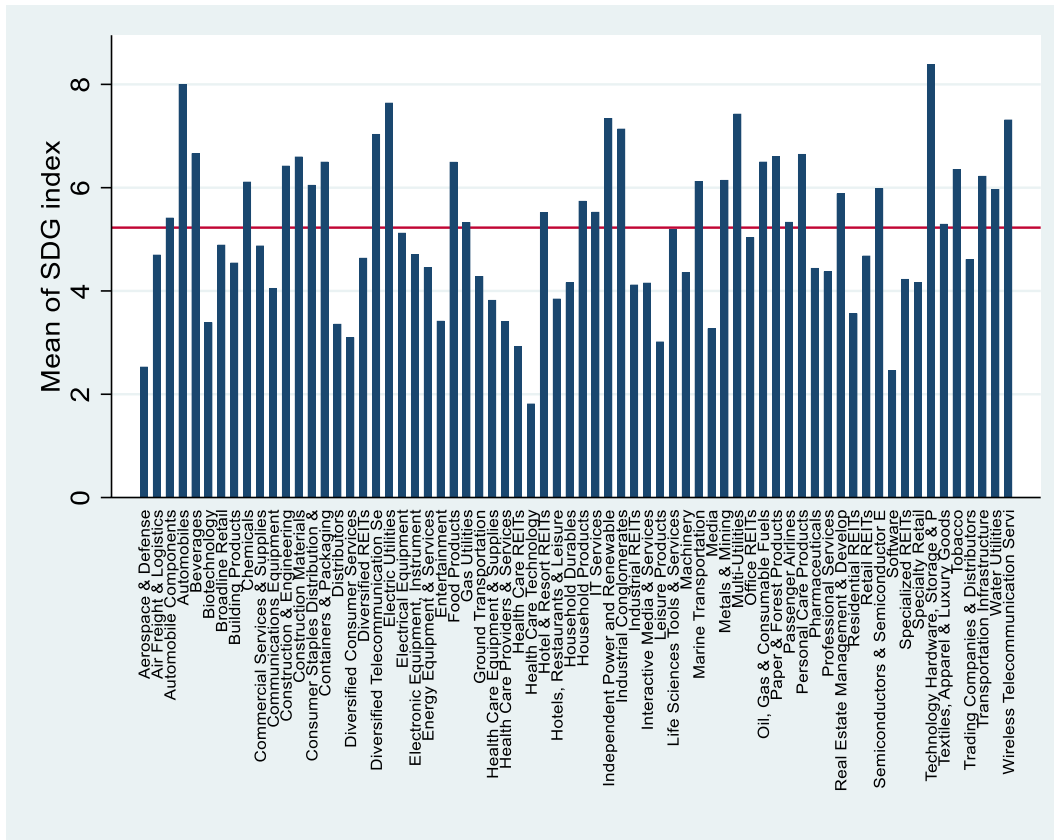


FIGURE 1 | Mean of SDG Index per industry.

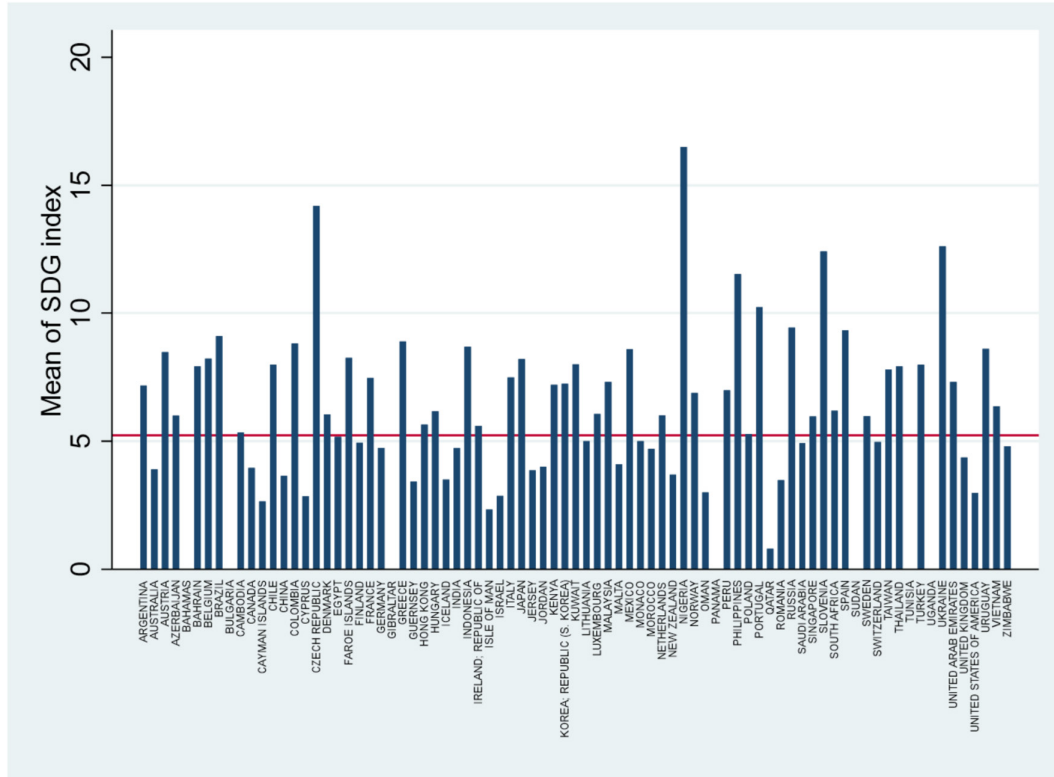


FIGURE 2 | Mean of SDG Index per country.

TABLE 4 | Correlation matrix.

	TAVOID	TAVOID_CASH	TAVOID_ADJ	TAVOID_IND	TAVOID_SIZE	SDG_INDEX	ROA	LEVERAGE	MARKET_CAP	PRICE_TO_BOOK	SIZE	CITR	GR	FDI	STMCAP	INSTITUTIONAL
TAVOID	1															
TAVOID_CASH	0.211	1														
TAVOID_ADJ	0.863	0.198	1													
TAVOID_IND	0.892	0.193	0.968	1												
TAVOID_SIZE	0.996	0.206	0.867	0.890	1											
SDG_INDEX	-0.092	-0.102	-0.047	-0.070	-0.072	1										
ROA	0.116	0.085	0.086	0.100	0.104	-0.065	1									
LEVERAGE	0.010	-0.114	-0.021	-0.032	0.028	0.092	-0.299	1								
MARKET_CAP	0.007	0.038	0.055	0.002	0.051	0.201	0.122	0.076	1							
PRICE_TO_BOOK	0.013	0.005	0.028	0.033	0.005	-0.085	0.390	-0.006	0.267	1						
SIZE	-0.063	0.002	-0.001	-0.067	-0.005	0.300	-0.234	0.287	0.765	-0.175	1					
CITR	-0.138	0.332	-0.120	-0.127	-0.141	0.056	0.040	-0.099	-0.025	0.039	-0.060	1				
GDP_GR	0.066	0.225	0.080	0.080	0.062	0.006	0.090	-0.109	-0.004	0.063	-0.060	0.192	1			
FDI	0.113	0.197	0.101	0.092	0.118	-0.224	0.001	0.039	0.233	0.105	0.165	0.006	0.045	1		
STMCAP	0.009	-0.182	0.019	0.014	0.018	0.000	-0.040	0.030	0.034	-0.055	0.119	-0.267	-0.173	0.006	1	
INSTITUTIONAL	-0.044	-0.410	-0.093	-0.089	-0.039	-0.016	-0.065	0.206	-0.043	-0.039	0.015	-0.482	-0.286	-0.115	0.267	1

Note: This table shows the correlation coefficients for the variables included in our analysis. Variable definitions are presented in Table 1.

TABLE 5 | Baseline results.

	(1)	(2)	(3)
	<i>Baseline model</i>	<i>Enhanced model</i>	<i>Hierarchical Linear Model</i>
VARIABLES	TAVOID	TAVOID	TAVOID
SDG_INDEX	-0.0003*** (0.0001)	-0.0007*** (0.0001)	-0.0003*** (0.0001)
ROA	0.0959*** (0.0138)	0.0761*** (0.0203)	0.0966*** (0.0120)
LEVERAGE	0.0239*** (0.0054)	0.0291*** (0.009)	0.0242*** (0.0049)
MARKET_CAP	0.0088*** (0.0009)	0.0108*** (0.0016)	0.0088*** (0.0008)
PRICE_TO_BOOK	-0.0012*** (0.0001)	-0.0013*** (0.0003)	-0.0012*** (0.0001)
SIZE	-0.0121*** (0.0009)	-0.0138*** (0.0016)	-0.0121*** (0.0008)
GDP_GR		0.0009*** (0.0003)	
FDI		6.57e-14 *** (5.82e-15)	
STMCAP		1.54e-05** (6.27e-06)	
INSTITUTIONAL		-0.0151*** (0.0011)	
CITR		-0.0042*** (0.0002)	
Constant	-0.180*** (0.0167)	-0.0364* (0.0218)	-0.122*** (0.0135)
Observations	22,427	18,465	22,427
R-squared	0.328	0.252	
Time dummies	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes
Number of groups			81
Chi-sq			5539

Note: Column 1 reports the results obtained when estimating our baseline model in Equation (1). Column 2 reports the results when an enhance model with additional country level controls are considered, whereas Column 3 reports the results when the baseline model is estimated using a hierarchical linear model. We control for industry, country and year fixed effects. Variable definitions are presented in Table 1. T-statistics are reported in parentheses. *, ** and *** denote significance at the 10%, 5% and 1%, respectively.

in our setting is the SDG index. The most challenging component of implementing an IV analysis relates to the choice of instruments. In particular, instruments ought to be relevant both on a conceptual as well as methodological perspective, whilst fulfilling the relevance and exclusion criterion. That is, the

chosen instruments need to be selected in such a way that they relate to the first-stage dependent variable (i.e., the endogenous or in our case the *SDG_INDEX*), but not with the residuals of the second stage regression. For the purpose of this exercise, we follow empirical precedent (e.g., Garcia-Castro et al. 2010; Lin

TABLE 6 | Robustness analysis.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Alternative Proxy	Alternative Proxy	Alternative Proxy	Alternative Proxy	Excl. high freq. countries	Excl. high freq. countries
	TAVOID_CASH	TAVOID_ADJ	TAVOID_IND	TAVOID_SIZE	TAVOID_1	TAVOID_2
SDG_INDEX	-0.0014*** (0.0003)	-0.0002** (0.0001)	-0.0002*** (0.0001)	-0.0002*** (0.0001)	-0.0003*** (0.0001)	-0.0014*** (0.0003)
ROA	0.487*** (0.0320)	0.0907*** (0.0129)	0.0919*** (0.0129)	0.0993*** (0.0138)	0.0959*** (0.0138)	0.487*** (0.0320)
LEVERAGE	0.0649*** (0.0123)	0.0188*** (0.0051)	0.0236*** (0.0052)	0.0228*** (0.0054)	0.0239*** (0.0054)	0.0649*** (0.0123)
MARKET_CAP	-0.0029 (0.0023)	0.0078*** (0.0009)	0.0092*** (0.0009)	0.0084*** (0.0009)	0.0088*** (0.0009)	-0.0029 (0.0023)
PRICE_TO_BOOK	-0.0019*** (0.0004)	-0.0010*** (0.0001)	-0.0012*** (0.0001)	-0.0011*** (0.0001)	-0.0012*** (0.0001)	-0.0019*** (0.0004)
SIZE	-0.0026 (0.0025)	-0.0065*** (0.0009)	-0.0120*** (0.0009)	-0.0078*** (0.0009)	-0.0121*** (0.0009)	-0.0026 (0.0025)
Constant	0.139*** (0.0370)	-0.0871*** (0.0165)	0.0045 (0.0165)	-0.0440*** (0.0168)	-0.180*** (0.0167)	0.139*** (0.0370)
Observations	20,320	13,798	13,798	13,798	13,798	12,679
R-squared	0.568	0.030	0.031	0.171	0.173	0.125
Time dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
R-sq	0.568	0.0302	0.0311	0.171	0.173	0.125

Note: This table shows the results obtained when estimating our baseline model in Equation (1) under alternative scenarios. Columns 1–4 report the results when four alternative proxies of tax avoidance are considered (TAVOID_CASH, TAVOID_ADJ, TAVOID_IND, TAVOID_SIZE). Columns 5–6 report the results when countries with high representation in our sample are dropped. In all regressions, we control for industry, country and year fixed effects. Variable definitions are presented in Table 1. T-statistics are reported in parentheses.

*, ** and *** denote significance at the 10%, 5% and 1% respectively.

TABLE 7 | Addressing endogeneity.

VARIABLES	(1)
	Panel A: 2nd stage results
SDG_INDEX	-0.022*** (0.002)
Observations	22,657
R-squared	0.633
Controls	Yes
Time dummies	Yes
Industry dummies	No
Country dummies	Yes
	Panel B: 1st stage results
<i>Instrument</i>	<i>Dep. var: SDG_INDEX</i>
Industry	0.663*** (0.068)
Time dummies	Yes
Industry dummies	No
Country dummies	Yes
F-test of excluded instruments	92.71
Prob > F	0.000
Kleibergen–Paap rk LM statistic	92.509
Kleibergen–Paap Wald F statistic	92.706

Note: This table shows the results obtained when estimating a two-stage least square (2SLS) model. Panel A reports the second stage results, whereas Panel B report the first stage results. In all regressions, we control for industry and year fixed effects. Variable definitions are presented in Table 1. T-statistics are reported in parentheses. *, ** and *** denote significance at the 10%, 5% and 1%, respectively.

et al. 2017; Abdelfattah and Aboud 2020) and include an indicator variable (*Industry*) that reflects whether a firm operates in an industry that is environmentally sensitive (e.g., oil and gas, mining, construction, etc.) as our main instrument. We select this instrument, as prior studies (e.g., Gao 2009) provide evidence suggesting that environmentally sensitive industries are more likely to disclose more socially responsible activities than their counterparts. Hence, this instrument fulfils the relevance criterion.

Turning to the exclusion restriction, we acknowledge that environmentally sensitive industries may, in certain institutional contexts, face sector-specific challenges including depletion allowances, energy-related levies or targeted regulatory scrutiny. However, we argue that such variation is effectively absorbed by the rich set of controls included in our model. Specifically, our baseline specification controls for firm size, profitability, leverage and price-to-book ratio at the firm level and incorporates country, industry and year fixed effects. The industry fixed effects directly absorb time-invariant differences in tax environments across sectors, including any structural advantages or disadvantages associated with operating in environmentally sensitive industries. Conditional on these controls, the

residual channel through which industry membership could directly affect tax avoidance (over and above what is captured by our controls and fixed effects) is therefore addressed. The instrument operates exclusively through its impact on SDG disclosure consistent with the exclusion restriction. This interpretation is further supported by our post-estimation diagnostics reported in Table 7, where the instrument passes both the under-identification and weak identification tests. The sign and significance of the instrument (*Industry*) is in accordance with our expectations. That is, *SDG_AVG* enters the first stage regression positively and significantly at the 1% level. Most importantly, the core variable of interest, *SDG_INDEX*, retains its sign and significance.

6 | Summary and Conclusion

The 2030 Agenda for Sustainable Development depends critically on adequate and sustained financing, yet the global SDG financing gap continues to widen reaching USD 1.7 trillion in 2020 alone. Corporate tax avoidance represents one of the most significant and yet underexplored threats to this financing agenda, draining public revenues that governments rely upon to

invest in climate mitigation, social infrastructure, and environmental protection. Against this backdrop, this study examines whether firm-level SDG disclosure is associated with corporate tax avoidance, using a large cross-country sample of 7213 firms from 81 countries over the period 2019–2023.

Prior research on sustainability and tax behaviour has relied predominantly on ESG metrics that have been widely criticised for inconsistency, lack of comparability, and susceptibility to greenwashing. By shifting focus to the SDG framework, which is a globally agreed, outcome-oriented, and standardised set of targets, this study provides a cleaner and more theoretically grounded setting in which to test the competing stakeholder, shareholder and decoupling perspectives on corporate tax behaviour. Our findings, robust across multiple tax avoidance proxies, alternative estimation methods, sample alterations and endogeneity controls, consistently show that firms with higher levels of SDG disclosure engage in significantly lower levels of tax avoidance. This evidence supports the stakeholder view, which suggests that firms substantively engaging with the SDG framework internalise broad stakeholder interests and treat responsible tax conduct as integral to their sustainability commitments, rather than as a competing objective. The results simultaneously challenge the shareholder primacy view—which would predict no systematic relationship between sustainability disclosure and tax behaviour—and the decoupling hypothesis, which would suggest that SDG reporting is largely ceremonial and uncorrelated with actual fiscal conduct. The consistency of our findings across diverse institutional environments and estimation approaches lends credibility to the interpretation that SDG engagement, at least on average, reflects substantive rather than purely symbolic adoption.

This study contributes to the theoretical literature in three principal ways. First, it advances the sustainability–tax avoidance debate by demonstrating that the disciplining effect of sustainability disclosure on tax behaviour is more clearly detectable when the disclosure framework is standardised and outcome-oriented. Unlike ESG scores, which aggregate heterogeneous and inconsistently measured dimensions, SDG disclosure is anchored to a universally agreed normative framework with specific targets and clear stakeholder expectations. This suggests that the mechanism linking sustainability commitment to tax behaviour operates through the reputational and normative pressures that arise when firms publicly align themselves with globally recognised goals—pressures that are more diffuse and easier to circumvent under generic ESG reporting. Second, by providing large-scale cross-country evidence that tilts the balance towards the stakeholder view, this study contributes to the ongoing empirical adjudication between competing theoretical perspectives on corporate tax behaviour. The finding that the SDG–tax relationship holds across diverse institutional contexts suggests it is not simply a product of strong domestic enforcement but reflects a more fundamental alignment between sustainability culture and fiscal responsibility. Third, the study contributes to the decoupling literature by demonstrating that SDG reporting appears to be associated with substantive behavioural alignment rather than symbolic adoption, a distinction that has important implications for how researchers and practitioners evaluate the credibility of corporate sustainability commitments.

Our findings providing practical insights and implications. For corporate managers and boards SDG engagement and responsible tax conduct are not independent choices but interconnected dimensions of a coherent sustainability strategy. Firms that adopt SDG disclosure as a substantive commitment—rather than a reputational exercise—are likely to find that it reshapes internal norms, stakeholder expectations, and governance structures in ways that extend to tax planning decisions. This has practical implications for how sustainability strategies are designed, governed and reported at the board level, and underscores the importance of integrating tax transparency explicitly into SDG and sustainability reporting frameworks. For investors and asset managers with sustainability mandates, our findings suggest that SDG disclosure quality may serve as a useful signal for distinguishing firms with substantive sustainability commitments from those engaged in symbolic adoption with direct implications for portfolio screening, stewardship engagement and ESG integration strategies.

In addition, our findings have direct and timely relevance for policymakers at the national and international level. First, the results suggest that voluntary SDG engagement, when substantive, can operate as a complement to formal tax regulation in curbing aggressive tax planning. This is a potentially important insight for the design of mandatory non-financial reporting frameworks. In particular, policymakers developing or revising sustainability disclosure mandates should consider whether explicit integration of tax transparency requirements within sustainability reporting obligations could reinforce the alignment between sustainability commitments and fiscal conduct. Second, for international bodies engaged in SDG financing our findings offer empirical support for the proposition that expanding the reach and quality of corporate SDG reporting may contribute meaningfully to narrowing the SDG financing gap, by reducing the tax avoidance behaviour that drains public revenues available for climate and social investment. Third, our findings support the broader framing of corporate taxation as a sustainability issue rather than a purely financial one.

Finally, this study is subject to limitations that simultaneously represent productive avenues for future research. First, our sample period of 2019–2023 is constrained by the availability of systematic SDG disclosure data in Refinitiv. As SDG reporting becomes more widespread and longer time series become available, future studies will be well placed to examine the dynamic evolution of the SDG–tax relationship over time, including whether the disciplining effect of SDG disclosure strengthens as reporting becomes more institutionalised and stakeholder expectations more demanding. Second, our core independent variable captures the reporting of SDG support rather than the actual achievement of SDG targets. As the introduction acknowledges, a key distinction of the SDG framework is its emphasis on measurable outcomes rather than activities. Future research that shifts focus from SDG disclosure to SDG outcomes would add important depth and allow a more precise test of whether substantive SDG achievement, rather than reporting, drives the tax behaviour we document. Third, while our cross-country design offers breadth and external validity, it limits the granularity with which we can examine country-specific institutional mechanisms. Future studies exploiting quasi-experimental variation in jurisdictions that have introduced mandatory SDG or

sustainability reporting could generate more precise causal estimates of the SDG–tax relationship.

Author Contributions

Ahmed Aboud: conceptualization, writing – original draft, writing – review and editing, formal analysis, data curation. **Niccolò Nirino:** conceptualization, writing – original draft, writing – review and editing, formal analysis, data curation. **Panagiota Papadimitri:** methodology, data curation, formal analysis, validation, writing – review and editing, writing – original draft, conceptualization. **Michael Christofi:** writing – review and editing, writing – original draft, conceptualization, data curation.

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Endnotes

¹In order to facilitate interpretation, we multiply the variable with ‘–1’.

²In further analysis, we also take into consideration alternative tax avoidance proxies in order to ensure the robustness of our results. Please see Section 5.3 for additional information.

³For further information regarding the definition of these variables, please see Table 1.

⁴The full report can be found in the following link: <https://sustainability.aboutamazon.com/2021-sustainability-report.pdf>.

⁵It is worth clarifying at this point that any missing values for any of the respective SDG variables are dropped in order to avoid any misleading results. Hence, when 0 is assigned to the overall SDG index this strictly denotes that there is no evidence of support of a goal.

⁶For further information regarding the definition of variables SDG1–SDG17, please see Table 1.

⁷In order to retain space, results are available upon request.

⁸Please see Table 1 for further details regarding variable definition.

⁹To conserve space, the results are available upon request.

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