Is Stakeholder Orientation Related to Corporate Tax Avoidance? New Evidence

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Abstract

Our study examines how constituency statutes influence corporate tax avoidance. These state-level laws allow corporate boards to consider the interests of all stakeholders, not just shareholders, in their decisions. Using recent econometric advances in staggered difference-in-differences estimations, we find that after these laws are adopted, firms affected by these laws reduce their tax avoidance. This effect is stronger in firms that previously avoid more taxes or have lower CSR ratings. Our study provides valuable insights into how stakeholder orientation influences tax behavior, offering practical implications for both corporate managers and policymakers.

I. INTRODUCTION

The relationship among stakeholder orientation, corporate social responsibility (CSR), and corporate tax avoidance is a critical issue with significant implications for policy and corporate practice. While earlier studies have presented mixed findings (Hoi, Wu, and Zhang, 2013; Lanis and Richardson, 2015; Davis, Guenther, Krull, and Williams, 2016; Chen et al., 2023), more recent research suggests that firms may decouple stakeholder orientation and CSR from tax strategy (Mayberry and Watson, 2021; Marques, Montenegro, and Bras, 2024). In this study, we first provide a theoretical framework that summarizes and clarifies the various theoretical arguments regarding the intricacies among stakeholder orientation, CSR activities, and tax avoidance strategies. We then exploit the enactment of constituency statutes by a firm's incorporation state as a positive shock to its stakeholder orientation, and leverage the recent econometric advances in staggered difference-in-differences (DiD) techniques to test the direct effect of stakeholder orientation on tax avoidance. Our findings indicate that strong ex-ante stakeholder orientation reduces tax avoidance, whereas ex-post CSR activities, as measured by CSR ratings, are not significantly related to tax avoidance. One caveat for the latter result is that CSR ratings cover only about 60% of law adoption events, potentially limiting the test's power.

Our findings point to the intricacies among stakeholder orientation, CSR, and tax responsibility, which are integral to the broader concept of corporate citizenship. Our study represents a response to the calls from Wilde and Wilson (2018), Krieg and Li (2021), and Armstrong, Kepler, Samuels, and Taylor (2022) for more research and the application of diverse methods to address the unresolved question of how stakeholder orientation and CSR affect tax avoidance.

Our study addresses the potential biases caused by "bad comparisons" inherent in two-way fixed effects DiD regression, commonly referred to as "traditional staggered DiD

estimations," as elaborated in the Online Appendix. These biases arise when groups previously impacted by the treatment are used as comparisons for groups affected later, especially in the presence of heterogeneous treatment effects. Such dynamics likely lead to biased estimates. Highlighting this, Baker, Larcker, and Wang (2022) show that bias correction often reverses original conclusions, which challenges the validity of prior research using traditional staggered DiD regressions.

In our main analysis, we use the data from U.S.-listed firms in 1987-2010, during which 27 states enacted constituency statutes,[1] and construct a "stacked sample" (Cengiz, Dube, Lindner, and Zipperer, 2019; Dasgupta, Huynh, and Xia, 2023; Krueger, Sautner, Tang, and Zhong, 2024) to examine how the tax rates of treatment firms change from five years before to five years after legislative changes, compared to never-treated firms. By matching firms on their effective tax rates (ETRs) and other pre-legislation metrics using entropy balancing, we find that treatment firms experience an increase in both cash ETRs and GAAP ETRs but a decrease in tax sheltering post-legislation. This effect is stronger for firms with lower pre-legislation tax contributions or CSR ratings. To our knowledge, our study not only provides a theoretical framework that summarizes and clarifies the various theoretical arguments regarding the intricacies among stakeholder orientation, CSR activities, and tax avoidance strategies, but also offers the first empirical evidence that a stronger orientation towards stakeholder interests leads to lower tax avoidance.

Our research advances the conversation on the ethical implications of tax avoidance, echoing the evolving ethos in business practices. This is exemplified by shifts in perspective such as the New York Times article "Shareholder value is no longer everything, top C.E.O.s say" (August 19, 2019) and ActionAid's report on "Tax responsibility: The business case for

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[1] We use these events to replicate Mayberry and Watson's (2021) non-result regarding the relation between changes in stakeholder orientation proxied by constituency statute adoption and tax avoidance obtained from estimating *traditional* staggered DiD regressions (see Table OA1 in the Online Appendix).

making tax a corporate responsibility issue" (2011). Such changes highlight the trend towards stakeholder engagement among U.S. corporations, aligning stakeholder interests with tax responsibility.[2] Increasing attention to stakeholders coincides with the growing emphasis on environmental, social, and governance (ESG) principles. Incorporating tax strategy into ESG criteria through the adoption of sustainable tax practices and a commitment to transparency can boost a firm's appeal to long-term institutional investors, who increasingly view the lack of such practices as a sustainability risk to their investments.[3] The practice of "doing well by doing good" not only bolsters a firm's reputation and societal impact but also supports public finances.

Our research has implications for policymakers, regulators, and accounting professionals. Currently, 35 U.S. states have enacted constituency statutes, with others considering their adoption amid uncertainties regarding policy outcomes. Our findings contribute valuable insights to this policy discourse, particularly from a taxation standpoint. A thorough understanding of the interplay between stakeholder interests and tax practices can also aid lawmakers in developing future legislation that acknowledges firms for prioritizing these interests. Moreover, such insight is crucial for practitioners aiming to establish and maintain effective and consistent approaches of stakeholder involvement and tax strategy development.

II. THEORETICAL FRAMEWORK AND RESEARCH QUESTION AND SETTING

Theoretical framework and research question

Stakeholder orientation, an ex-ante consideration of, or focus on, stakeholder interests, can affect tax avoidance directly and indirectly through its influence on CSR activities and other corporate attributes. Figure 1 illustrates the specific pathways of such influences. Our research

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[2] Patagonia, a U.S. clothing company, uses recycled materials and supports renewable energy. It pays taxes, donates to environmental groups, and gave $10 million to grassroots organizations in 2018 after receiving a tax cut from the Trump administration. Patagonia's CEO said the company wanted to "fund environmental solutions." Patagonia's CSR activities boost its reputation, brand image, customer loyalty, and employee retention.

[3] PwC, "The role of tax in ESG," https://www.pwc.ie/services/tax/insights/esg-tax-role.html. KPMG Global, "ESG and tax: Increasing importance to institutional investors," https://kpmg.com/xx/en/home/insights/2021/09/esg-and-tax.html.

aims to empirically test the direct effect of stakeholder orientation on tax avoidance (Route A), which can be negative, positive, or neutral, reflecting diverse theoretical perspectives. A negative relation arises if firms with a strong focus on stakeholder interests perceive tax avoidance as socially irresponsible or even unethical, acknowledging their duty to pay a fair share of taxes. In contrast, a positive relation could occur if firms see tax avoidance as beneficial for stakeholders because it helps redirect funds from inefficient governments to firms' social programs that benefit not only their employees but also the broader stakeholder community (Davis et al., 2016). Yet, it is also possible that stakeholder focus and tax avoidance function independently, allowing firms to achieve both financial and social objectives without sacrificing either, an idea known as the decoupling perspective (Mayberry and Watson, 2021; Marques et al., 2024).

Figure 1
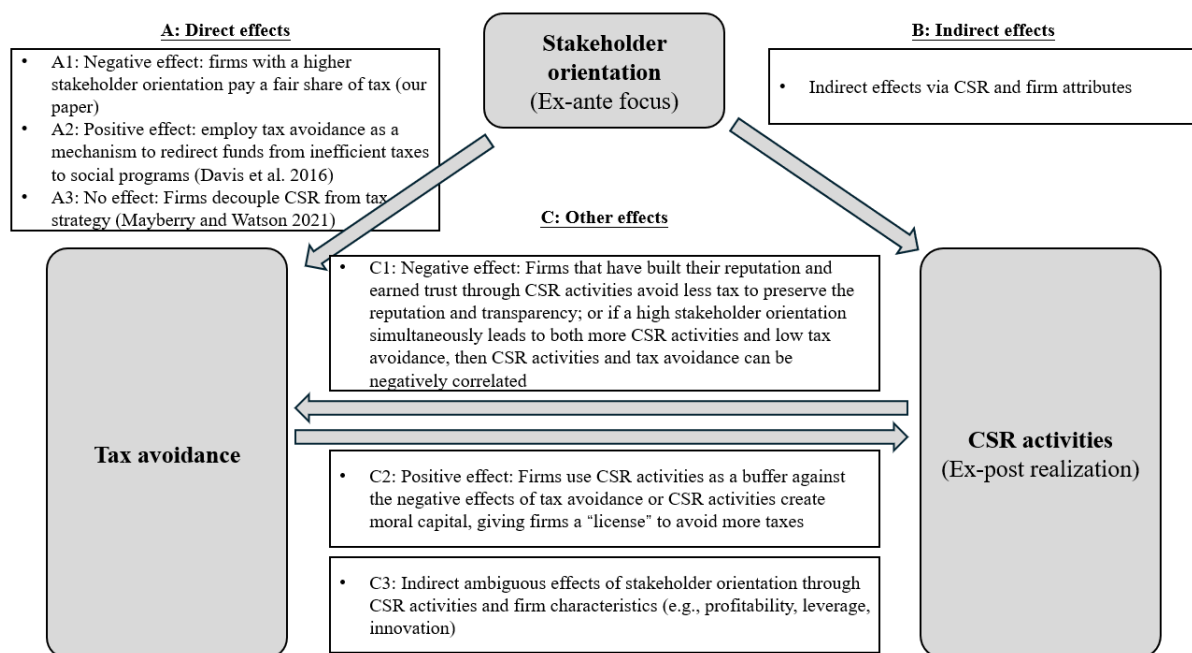Stakeholder orientation and tax avoidance

Stakeholder orientation can indirectly affect tax avoidance through CSR activities, specifically along Routes B and C. The relation between CSR activities and tax avoidance is complex, with no consensus on its direction. On one hand, some theories predict a negative relationship (Route C1), where firms that have built their reputation and earned trust through

CSR activities are less inclined to avoid taxes to preserve their reputation and commitment to transparency (Hoi et al., 2013; Lanis and Richardson, 2015).[4] Similarly, stakeholder orientation that simultaneously leads to both more CSR activities and low tax avoidance could result in a negative and spurious correlation between the two. On the other hand, Route C2 proposes a positive relation, in which tax avoiders employ CSR activities as a risk management strategy to mitigate the negative consequences of tax avoidance (indicating a direction from tax avoidance to CSR activities). It is also plausible that CSR engagement can create moral capital, essentially giving firms a "license" to pursue aggressive tax strategies (indicating a direction from CSR activities to tax avoidance). Therefore, the relation under Routes C1 and C2 can run both ways.

Finally, stakeholder orientation can also indirectly influence tax avoidance through its impact on various firm policies and characteristics (Route C3). For example, a firm's commitment to environmental protection can incur higher capital expenditures on pollution abatement equipment, leading to significant tax savings through greater deductions. Likewise, more corporate donations can also yield more tax deductions. To the extent that more CSR activities generate good publicity and stimulate more sales, firms likely report higher profit, other things being equal, which pushes firms into a higher income tax bracket. Prior studies have also shown that a higher stakeholder orientation enhances corporate innovation (Flammer and Kacperczyk, 2016), reduces risk-taking behavior (Leung, Song, and Chen, 2019), and facilitates cheaper debt financing (Gao et al., 2021), all of which carry tax-related consequences through increased R&D expenditure, potentially less earnings management, and more borrowing at lower costs. While there are many indirect effects, they hold marginal significance within the scope of our study due to their different implications for firms' tax positions. Indeed,

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[4] Tax avoidance can hurt firms in various ways, such as reputation damages, increased regulatory and tax authority scrutiny, and consumer boycotts (Hanlon and Slemrod, 2009; Bozanic et al., 2017; Col and Patel, 2019). For instance, Starbucks changed its tax and CSR strategies in the U.K. after a reputation crisis (Col and Patel, 2019).

Carroll (1991) also notes that CSR activities are multifaceted, which include economic, ethical, legal, and philanthropic dimensions.

In summary, there are different theoretical arguments regarding the relationship among stakeholder orientation, CSR activities, and tax avoidance. We note from the literature review that prior studies often equate ex-ante stakeholder orientation to ex-post CSR activities and treat them as synonymous even though the latter is an outcome of the former and is generally endogenously determined. As a result, researchers often resort to using ex-post realized CSR activities and performance—typically represented by various CSR ratings—as explanatory variables for tax avoidance possibly due to the lack of a direct measure of stakeholder orientation. Consequently, their results mainly speak to Route C, rather than the theoretical discourse of Route A, which is our primary focus. [5] Marques et al. (2024) conduct a comprehensive analysis of 117 estimates derived from 23 studies on CSR activities' direct tax implications, concluding that variations in CSR activities and tax avoidance measures, alongside differences in data samples and econometric specifications, account for these inconsistent findings.

Research setting and proxy for stakeholder orientation

Originating from academic theories of stakeholder orientation and CSR, constituency statutes emerged in the 1980s to shield local employees and communities from the adverse effects of hostile takeovers of local companies. Between 1984 and 2007, 35 U.S. states passed these statutes, allowing firms to consider stakeholders' interests without breaching fiduciary duties to shareholders (Barzuza, 2009).

While constituency statutes are permissive rather than mandatory, evidence shows that the adoption of such statutes is related to improved CSR performance in firms, as confirmed by various studies (e.g., Atanassov, 2013; Flammer and Kacperczyk, 2016; Flammer, 2018; Gao

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[5] Mayberry and Watson (2021) and Chen, Mathers, Wang, and Wang (2023) are two exceptions. Both studies use state adoption of constituency statutes to capture changes in ex-ante stakeholder focus of firms.

et al., 2021; Mayberry and Watson, 2021) as well as our own test. These statutes positively impact firms' CSR ratings by institutionalizing stakeholder-friendly structures, incorporating CSR performance into executive pay, reinforcing board discretion in stakeholder orientation, and reducing managers' concerns about CSR activities being challenged by shareholders (Bainbridge, 1992; Hubbard, Christensen, and Graffin, 2017; Flammer, Hong, and Minor, 2019; Luoma and Goodstein, 1999; Radhakrishnan, Wang, and Wang, 2021; Chen, Shen, and Zou, 2024). Research also indicates that these laws enhance employees' innovation productivity (Flammer and Kacperczyk, 2016), reduce banks' risk-taking (Leung, Song, and Chen, 2019), and facilitate more affordable debt financing (Gao, Li, and Ma, 2021).

Our testing strategy adopts the approach of Mayberry and Watson (2021), using the state adoption of constituency statutes as a positive shock to firms' ex-ante focus on stakeholder interests. We test the direct effect of these changes on tax behavior (identified as Route A in Figure 1), while controlling for indirect influences (through Route C3) by including a comprehensive set of determinants on firms' tax positions. We also enhance our analysis with an instrumental variable (IV) approach to further investigate the effect of CSR activities on tax avoidance through Routes C1 and C2 as a supplement.

III. METHODOLOGY AND DESCRIPTIVE STATISTICS

Sample selection

We adopt the DiD methodology of Mayberry and Watson (2021) that also exploit statute adoption for identification, using a sample spanning from 1987 to 2010 that closely follows theirs.[6] Table 1 lists the states with a constituency statute and their adoption years. We assign firms to treatment or control groups based on their historical state of incorporation, rather than

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[6] We follow Mayberry and Watson (2021) and use 27 states that adopted a statute from 1988 to 2007 because we need cash ETR, which is not available before 1987. In the Online Appendix, we replicate Mayberry and Watson's (2021) work using a sample of 57,117 firm-years from 1987 to 2010.

their headquarter location. This classification leverages data from the legacy CRSP/Compustat Merged database, ensuring precise identification of the firms affected by these statutes.[7]

Measures of tax avoidance

We use cash ETR (*CETR*) and GAAP ETR (*GETR*) as tax avoidance measures. *CETR*, the ratio of cash taxes paid to pre-tax income, captures a broader spectrum of tax avoidance strategies and is unaffected by stock option-related distortions (Hoopes, Mescall, and Pittman, 2012). Wilde and Wilson (2018) argue that *CETR* directly reflects tax avoidance activities. In contrast, *GETR* is influenced by capital market pressures. Public and regulatory entities often scrutinize *CETR* more. We also construct a dummy variable, *SHELTER*, which equals one for firms with a higher sheltering probability in a particular year (Wilson, 2009), to identify intentional tax avoidance. Appendix A provides detailed definitions of these proxies.

Stacked DiD regression model

We adopt cohort-based stacked DiD regressions (Cengiz et al., 2019; Barrios, 2021; Dasgupta et al., 2023; Krueger et al., 2024), focusing on an eleven-year window surrounding each statute's adoption year. This [-5, +5] analysis window allows for a cleaner inference about the tax effect of a policy change, minimizing the influence of confounding events present in longer observation periods. Moreover, we use entropy balancing in the year preceding the statute adoption year to ensure comparability of firm-level characteristics between treated and never-treated firms (i.e., firms incorporated in states that never pass the law).

The stacked DiD sample is constructed using the following procedures. First, we group the statute adoption years (i.e., 1988, 1989, 1990, 1991, 1993, 1997, 1998, 1999, 2006, and 2007) into cohorts. Second, we collect firm-year observations for both treated and never-treated

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[7] We follow some studies that use the CSTHIST dataset for historical incorporation states (e.g., Bai, Fairhurst, and Serfling, 2020). The CSTHIST dataset comes from the legacy CRSP/Compustat Merged database originating from Compustat FTP files. The dataset has full records of headquarter and incorporation states, so no backfilling is required for early years.

control firms in the [-5, +5] window around the adoption year (year = 0). Table 1 lists the fraction of treatment firms in each cohort of statute adoption. Subsequently, we combine the cohort data into a final sample of 93,799 observations. Third, we match treatment firms and control firms using entropy balancing based on both the first moment and second moment of *CETR*, *GETR*, and control variables in the pre-adoption period.[8] This weight, derived from the pre-adoption data, is then consistently applied across the corresponding firms' observations within the eleven-year window. This method ensures that both groups are comparable not only in ETR determinants but also regarding *CETR* and *GETR*, facilitating a cleaner analysis of the differential responses to constituency statutes based on pre-event tax avoidance levels. By matching on a broad array of variables, we simulate an "as-if" random assignment, which is essential for valid DiD identification (Atanasov and Black, 2016; 2021).

Table 2 reports the summary statistics for the stacked DiD sample after matching, which is used in our DiD analysis. Following Cengiz et al. (2019), Barrios (2021), and Baker et al. (2022), we use the following stacked DiD regression model to estimate the treatment effect of implementing constituency statutes that allow managers to consider stakeholder interests in business decisions without breaching fiduciary duties:

$$
\begin{aligned}
Tax\ Measure_{c,i,s,h,t} \\
= \alpha + \beta TREAT_{c,i} \times POST_{c,s,t} + \boldsymbol{\delta}'\ Controls_{c,i,s,h,t-1} + \theta_{c,i} + \gamma_{c,h,t} + \epsilon_{c,i,s,h,t}
\end{aligned} \quad (1)
$$

The dependent variable is cash ETR (*CETR*), GAAP ETR (*GETR*), or the tax sheltering indicator (*SHELTER*). *TREAT* equals one if firm i in cohort c is incorporated in state s with a constituency statute, and zero otherwise. *POST* equals one if year t for cohort c is during or after the statute adoption, and zero otherwise. Cohort-by-firm fixed effects ($\theta_{c,i}$) are included to control for unobserved firm-specific attributes within cohorts, while cohort-by-headquarters

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[8] In untabulated comparisons, we find that before matching, significant differences exist between the treatment and control groups in firm characteristics including ETRs, firm size, the proportion of intangible assets, NOL, market-to-book ratio, and R&D in the year before the event.

state-by-year fixed effects ($\gamma_{c,h,t}$) control for unobserved time-varying headquarter state-level economic shocks where h indexes headquarter states (Gormley and Matsa 2016; Cengiz et al. 2019). These high-dimensional fixed effects allow for cohort-specific variations and avoid the limitations of imposing uniform firm fixed effects, thereby enabling conservative inference (Gormley and Matsa, 2016). Additionally, standard errors are clustered at the level of incorporation state to account for inter-firm correlations within the same state.

We control for profitability, book-tax differences, and tax planning opportunities to isolate the direct effect of constituency statutes on tax avoidance trends via changes in firm financial decisions and thereby firm characteristics. Profitability is measured by return on assets (*ROA*), the presence of a net operating loss carry-forward (*NOL>0*), and the annual change in NOL (*Change in NOL*). Book-tax differences are gauged by the ratio of property, plant, and equipment (*PPE*) and intangible assets to total assets (*Intangible assets*), as well as equity income's contribution to earnings (*Equity income*). Tax planning opportunities consider leverage (*Leverage*), foreign income presence (*Foreign income*), firm size (*Size*), and market valuation (*Market-to-book*). We also account for R&D expenditure relative to assets (*R&D*) to control for the tax effects of innovation (Flammer and Kacperczyk, 2016). These controls are applied with a one-period lag to the dependent variables, as detailed in Appendix A.

IV. RESULTS

Baseline DiD regression results

Panel A of Table 3 reports the baseline results from our stacked DiD regressions. Columns 1-3 exclude firm-level control variables, while Columns 4-6 include them. The interaction term *TREAT×POST* yields a positive coefficient for *CETR* and *GETR*, and a negative one for *SHELTER*. These results are robust to controlling for the indirect effects of stakeholder orientation through CSR activities and firm characteristics (Route C3 in Figure 1), suggesting that treatment firms pay more taxes post-implementation of constituency statutes that allow

managers to consider stakeholder interests without breaching fiduciary duties. Columns 4-6 show *CETR* and *GETR* increase by 2.7 and 2.3 percentage points, respectively, while *SHELTER* decreases by 0.021. These increments correspond to 9.5% (= 0.027/0.285*100), 8.5% (= 0.023/0.270*100), and 5.5% (= -0.021/0.385) of their respective means (see Table 2). Our evidence aligns more closely with the theory predicting a negative relation between stakeholder orientation and tax avoidance (Route A1 in Figure 1). This perspective argues that firms with a strong focus on stakeholder interests perceive tax avoidance as socially irresponsible or unethical, acknowledging their duty to pay a fair share of taxes. This result contrasts with the insignificant effects of stakeholder orientation on tax avoidance, which we replicated using traditional staggered DiD in Online Appendix Table OA1.

Tests of the parallel trend assumption

A key assumption for DiD analysis is that treatment and control firms exhibit parallel trends in the absence of the events. Otherwise, observed effects could be due to pre-existing trends, not the law. We test this by estimating a dynamic DiD regression model in Eq. (2).

$$
\begin{aligned}
Tax\ Measure_{c,i,s,h,t} &= \alpha + \beta_1 TREAT_{c,i} \times BEFORE(-5)_{c,s,t} + \beta_2 TREAT_{c,i} \times BEFORE(-4)_{c,s,t} \\
&+ \beta_3 TREAT_{c,i} \times BEFORE(-3)_{c,s,t} + \beta_4 TREAT_{c,i} \times BEFORE(-2)_{c,s,t} \\
&+ \beta_5 TREAT_{c,i} \times AFTER(0)_{c,s,t} + \beta_6 TREAT_{c,i} \times AFTER(+1)_{c,s,t} \\
&+ \beta_7 TREAT_{c,i} \times AFTER(+2)_{c,s,t} + \beta_8 TREAT_{c,i} \times AFTER(+3)_{c,s,t} \\
&+ \beta_9 TREAT_{c,i} \times AFTER(+4)_{c,s,t} + \beta_{10} TREAT_{c,i} \times AFTER(+5)_{c,s,t} \\
&+ \boldsymbol{\delta'} Controls_{c,i,s,h,t-1} + \theta_{c,i} + \gamma_{c,h,t} + \epsilon_{c,i,s,h,t}
\end{aligned}
\tag{2}
$$

BEFORE(-5) to *BEFORE (-2)* represent the five to two years before adoption, *AFTER(0)* denotes the adoption year, and *AFTER(+1)* to *AFTER(+5)* correspond to the one to five years after adoption. The year right before adoption (i.e., year = -1) is omitted as the reference group.

Panel B of Table 3 shows that the coefficients on *TREAT×BEFORE(-5)* to *TREAT×BEFORE(-2)* are insignificant, suggesting there are no pre-existing trends. Post-adoption coefficients are generally statistically significant for *CETR* and *GETR* (positive) and *SHELTER* (negative), implying the influence of constituency statutes on tax avoidance emerges

only after enactment. In Column 2, the coefficient on *TREAT×AFTER(+5)* becomes slightly negative, implying a temporary increase in *GETR* that reverts to pre-adoption levels after three years. In contrast, *CETR* and *SHELTER* do not exhibit similar short-term fluctuations. It is important to note that the inverse relation between *GETR* and reported earnings can create capital market pressures, requiring firms to balance minimizing tax avoidance to satisfy stakeholders with preserving reported earnings to meet shareholder expectations. The above dynamic patterns are also graphically shown in Figure 2.

We report additional analyses in Online Appendix. Table OA2 repeats the DiD cohort by cohort and shows a predominant trend of reduced tax avoidance—nine out of ten for *CETR*, eight out of ten for *GETR*, and eight out of ten for *SHELTER*. Using the methods by Callaway and Sant'Anna (2021) and Sun and Abraham (2021), Table OA3 confirms that higher stakeholder focus reduces tax avoidance, consistent with the main results.[9]

CSR activities and tax avoidance: An instrumental variable analysis

While our main focus is on the direct effect of stakeholder orientation on tax avoidance (Route A in Figure 1), we also investigate the link between ex-post CSR performance and tax avoidance (Routes C1 and C2). Using an instrumental variable analysis that avoids potential endogeneity of ex-post CSR activities, we model CSR performance based on constituency statute implementation and assess its impact on tax avoidance. Our dependent variable *CSR_Rating* is measured using KLD ratings, determined by subtracting total number of concerns from total number of strengths in five key categories.

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[9] While the methods by Callaway and Sant'Anna (2021) and Sun and Abraham (2021) using a continuous sample period help reduce estimation bias from including previously treated firms in the control group, they have three limitations compared to using a stacked sample over a fixed short window around statute adoption. First, embedding matching into the estimation is challenging, which may lead to biased DiD results due to differing characteristics of treatment and control firms. Even with controls for lagged tax avoidance determinants in the two estimations reported in the Online Appendix, these characteristics could be contaminated by statute adoption. Second, using a long sample period (1987-2010) increases the risk of being affected by unobserved confounding events. Finally, these methods are not well suited for testing whether firms with varying pre-existing tax avoidance levels respond differently to increased stakeholder focus.

Table 4 reports the regression results. Column 1 details the first-stage regression using a stacked DiD regression on a matched sample with entropy reweighting. The positive and significant coefficient on *TREAT×POST* suggests that constituency statutes increase CSR ratings for treatment firms relative to control firms, supporting prior research (e.g., Atanassov, 2013; Flammer and Kacperczyk, 2016; Flammer, 2018; Gao et al., 2021; Mayberry and Watson, 2021). The Sanderson-Windmeijer multivariate *F*-test of the excluded instrument confirms the instrument's relevance (*p*-value = 0.015), and the Cragg-Donald Wald *F*-stat shows that our instrument is unlikely a weak one (*F*-stat = 81.79, which is well above the 10% cutoff value of 16.38). Columns 2-4 show the second-stage regression results using the fitted CSR rating ($\widehat{CSR\_Rating}$) as the predictor for tax avoidance proxies (*CETR*, *GETR*, and *SHELTER*). The findings indicate no significant effect, although a marginal *t*-statistic is observed for *GETR* in Column 3. While there are divergent arguments under Routes C1 and C2 regarding the link between CSR activities and tax avoidance, the insignificant result may also be due to the limited power of the test, as KLD CSR ratings are available for only about 60% of the law adoption events.[10] Overall, there is no evidence that changes in tax avoidance are primarily driven by indirect effects of CSR activity changes.

Cross-sectional results

This section examines the heterogeneities in the effects of improved stakeholder focus on tax avoidance. We consider the moderating effects of firms' pre-event level of tax avoidance, ex-ante CSR rating, industry's eco-social sensitivity, corporate governance, and multinational status using triple-difference regressions. Results are reported in Table 5.

Panel A presents the triple-differences results involving the five-year pre-event averages of *CETR* (i.e., *Pre-event CETR*), *GETR* (i.e., *Pre-event GETR*), and *SHELTER* (i.e., *Pre-event*

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[10] The coverage of other CSR rating sources, such as ASSET4, begins even later than KLD. Mayberry and Watson (2021) also find insignificant results on the relation between instrumented CSR ratings and tax avoidance.

SHELTER) as the conditioning variables. The results show that firms with higher pre-event tax avoidance levels—indicated by lower *Pre-event CETR* and *GETR,* or higher *SHELTER*—tend to reduce their tax avoidance more post-implementation of constituency statutes.[11] For example, firms at the 25th and 50th percentiles of *pre-event CETR* see a respective reduction in tax avoidance through increasing *CETR* by (calculated as $b_1 + b_2 \times$*Pre-event CETR*) 0.044 (*p*-value < 0.01) and 0.024 (*p*-value < 0.01). However, this effect becomes insignificant for firms in the top quartile of *pre-event CETR* and *pre-event GETR*. In addition, only firms that have *pre-event SHELTER* ranked in the top quartile exhibit a significant reduction in tax sheltering (Column 3). These results suggest that firms with more aggressive tax strategies prior to the statutes are more likely to reduce such practices afterwards. It is important to note that these results transcend mere mean reversion effects as we include *POST$\times$Pre-event CETR* in Column 1, *POST$\times$Pre-event GETR* in Column 2, and *POST$\times$Pre-event SHELTER* in Column 3.

In Panel B of Table 5, the conditioning variable is *Pre-event CSR_Rating*, defined as the pre-event average of *CSR_Rating*. The triple interaction term has significantly negative coefficients in Columns 1 and 2 but not in Column 3. These results imply that firms with poorer CSR performance before the event show a greater reduction in tax avoidance, as measured by effective tax rates, after laws improving stakeholder orientation are passed. This finding lends further credence to our hypothesis that stakeholder orientation directly reduces tax avoidance.

Similar to Mayberry and Watson (2021), Panel C of Table 5 introduces *ESSI*, a metric that assigns a value of one to firms in industries deemed environmentally and socially sensitive. The Fama-French 48 industry code identifies environmentally sensitive industries as chemicals (code 14), non-metallic and industrial metal mining (code 28), and utilities (code 31).[12] Socially sensitive industries include beer and liquor (code 4), pharmaceutical products (code 13), and

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[11] Triple-difference results using binary pre-event tax measures based on the cutoff of median are similar.
[12] We exclude oil and gas extraction industries from this analysis, as they reportedly pay significantly lower federal income taxes compared to the statutory rate. See the report on Effective Tax Rates for Oil and Gas Companies at https://www.taxpayer.net/wp-content/uploads/ported/images/downloads/TCS_ETR-Report.pdf.

defense (code 26) within the same classification system. The triple interaction term exhibits a negative coefficient in Columns 1 and 2, where tax avoidance is proxied by effective tax rates, and a positive coefficient in Column 3 where it is measured by a tax sheltering indicator. This pattern suggests that ESSI firms may have a pre-existing higher stakeholder orientation, possibly due to increased social pressure before the statute adoption.[13] An *F*-test of the combined coefficients for the DiD and triple-difference items is statistically significant across all columns, as reported at the bottom of Table 5 Panel C. Therefore, ESSI firms also exhibit a statistically significant decrease in tax avoidance.

In Panel D, the cross-sectional variables are pre-event transient institutional ownership (*Pre-event TRA_IO*) and pre-event dedicated institutional ownership (*Pre-event DED_IO*). They represent distinct investor types with differing impacts on governance and CSR preferences due to the immediate costs versus long-term benefits of CSR activities (Fu, Tang, and Yan, 2019). In the analysis, the reference group includes firms without institutional ownership or quasi-index institutional ownership. The coefficient on *TREAT×POST×Pre-event TRA_IO* reveals that firms with a higher proportion of transient institutional investors—those focusing on immediate profits—tend to maintain tax avoidance behavior. This tendency underscores the historical hesitance of managers to prioritize stakeholder interests, influenced by the short-term profit focus of these investors and the associated managerial risks. Post-adoption of constituency statutes, however, managers gain legal protection from such short-term pressures. In contrast, the *TREAT×POST×Pre-event DED_IO* coefficient does not show a significant moderating effect of long-term institutional investors on the relation between constituency statutes and corporate tax strategies.

In Panel E, the analysis includes the interaction between the pre-event entrenchment index (*Pre-event E-index*) and the DiD item. Cremers and Ferrell (2014) find that entrenched

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[13] In our sample, ESSI firms have an average *pre-event CETR* (*pre-event GETR*) of 0.292 (0.299), notably higher than 0.272 (0.290) in their non-ESSI counterparts, with the *p*-value of the difference being 0.001 (0.085).

managers, who often prioritize short-term benefits, can adversely influence a firm's long-term value. Desai and Dharmapala (2006) argue that the obscurity of corporate tax avoidance can hide managerial self-interest. Thus, statute adoption can lead to more tax avoidance under entrenched management. The significant coefficients on *TREAT×POST×Pre-event E-index*, in contrast to the standalone DiD item, indicate that firms with greater managerial entrenchment experience a smaller reduction in tax avoidance following the adoption of constituency statutes. However, a notable limitation of this test is the small sample size due to the E-index's unavailability before the 1990s, while most constituency statute adoptions occurred in the 1980s.

Additionally, Panel F assesses the impact on multinational corporations using the *MNC* indicator variable. The negligible coefficients for *TREAT×POST×MNC* across all columns suggest that constituency statutes affect tax avoidance similarly in both multinational and domestic firms, implying that the observed changes in tax rates are not attributable to greater cross-border tax avoidance opportunities of multinational firms. Indeed, this is confirmed by the *F*-test of the combined coefficients of the DiD item and triple-difference items reported at the bottom of Table 5 Panel F.

Robustness checks

In this subsection, we conduct three robustness checks. First, we investigate the possibility that other state-level antitakeover legislation changes may influence our findings. Following Karpoff and Wittry (2018), we construct four proxies to assess the enactment of specific antitakeover laws by a firm's state of incorporation: Control Share Acquisition (*CSA*), Business Combination (*BC*), Fair Price (*FP*), and Poison Pill (*PP*). Table 6 shows that the inclusion of these additional controls does not alter the tenor of our conclusions.

Second, the hypothesis we intend to test is that changes in stakeholder focus induced by statute adoption directly affect tax avoidance. Although such legal changes can affect firms' other financial decisions—like debt financing (Gao et al., 2021) and innovation (Flammer and

Kacperczyk, 2016), potentially altering tax positions—our focus lies in the direct effect. Recognizing that higher stakeholder orientation can reduce the emphasis on short-term earnings and thereby increasing tax liabilities, we have controlled for time-varying common determinants of tax avoidance. This approach, elaborated in Section III through the stacked DiD regression model, helps us pinpoint the direct effects. Importantly, we use a tax sheltering proxy (*SHELTER*) to gauge aggressive tax avoidance, which is less susceptible to indirect consequences of financial decision-making or changes in financial characteristics than traditional ETR metrics, due to the *deliberate* nature of tax sheltering strategies. Nevertheless, we conduct additional analyses to ensure that our DiD methodology captures the direct effect, rather than an indirect one via changes in major financial decisions.[14]

Finally, in Table 7, we control for state-level macro-economic environment, proxied by the natural logarithm of the GDP of a firm's state of incorporation (*ln(Incorporation State GDP)*). The robustness of our main results suggests that the observed rise in ETRs following statute adoption is unlikely driven by changes in state-level economic conditions.

V. IMPLICATIONS

Our study revisits the link between stakeholder orientation and tax avoidance for two reasons: the inconclusive evidence in prior studies and the recent calls for a critical re-evaluation of traditional staggered DiD methods due to potential estimation biases. We first present a theoretical framework to comb through the different arguments on the complex relations among ex-ante stakeholder orientation, ex-post CSR activities, and tax avoidance. Unlike many previous studies, our approach distinctively separates ex-ante stakeholder focus from ex-post CSR activities, enabling us to test the direct effect of stakeholder orientation on tax avoidance.

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[14] In unreported analyses, we control for year-on-year changes in ROA (*ΔROA*), leverage *(ΔLeverage)*, and R&D investment (*ΔR&D*), along with common determinants of tax avoidance. The results for *TREAT×POST* remain robust.

Using recent advances in staggered DiD estimations, we find that firms reduce tax avoidance after the adoption of state-level constituency statutes, which allow them to consider stakeholder interests without breaching fiduciary duties. This trend is especially pronounced in firms with high pre-legislation tax avoidance or low CSR performance. Notably, reductions in tax avoidance are most observable through metrics like cash ETRs and strategic tax sheltering. However, our instrumental variable analysis shows no significant association between CSR activities and tax avoidance, possibly due to complex theoretical dynamics or the limited power of our test. Our study tackles the CSR-tax avoidance paradox with a robust theoretical framework and methodological rigor, thereby enriching to the field of CSR accounting research.

Understanding how stakeholder orientation and CSR affect corporate tax behavior is crucial for designing policies that promote ethical business practices and tax compliance, ultimately promoting social welfare. Our findings indicate that constituency statutes, though not designed for revenue generation, inadvertently support public funding and societal well-being. These results suggest that U.S. states without these statutes may benefit from their adoption, especially amidst growing ESG concerns. The positive link between stakeholder focus and tax contributions underscores the need for sustainable tax practices and enhanced transparency within ESG frameworks. Insights into the CSR-tax nexus can aid practitioners in developing effective and credible strategies in these areas.

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Figure 2: Dynamic treatment effects

This figure shows the dynamic treatment effects of adopting constituency statutes on tax avoidance. We plot the coefficient estimates of the dynamic DiD analysis reported in Panel B of Table 3, along with the 95% confidence intervals.

$Y = CETR$

$Y = GETR$

Y = *SHELTER*
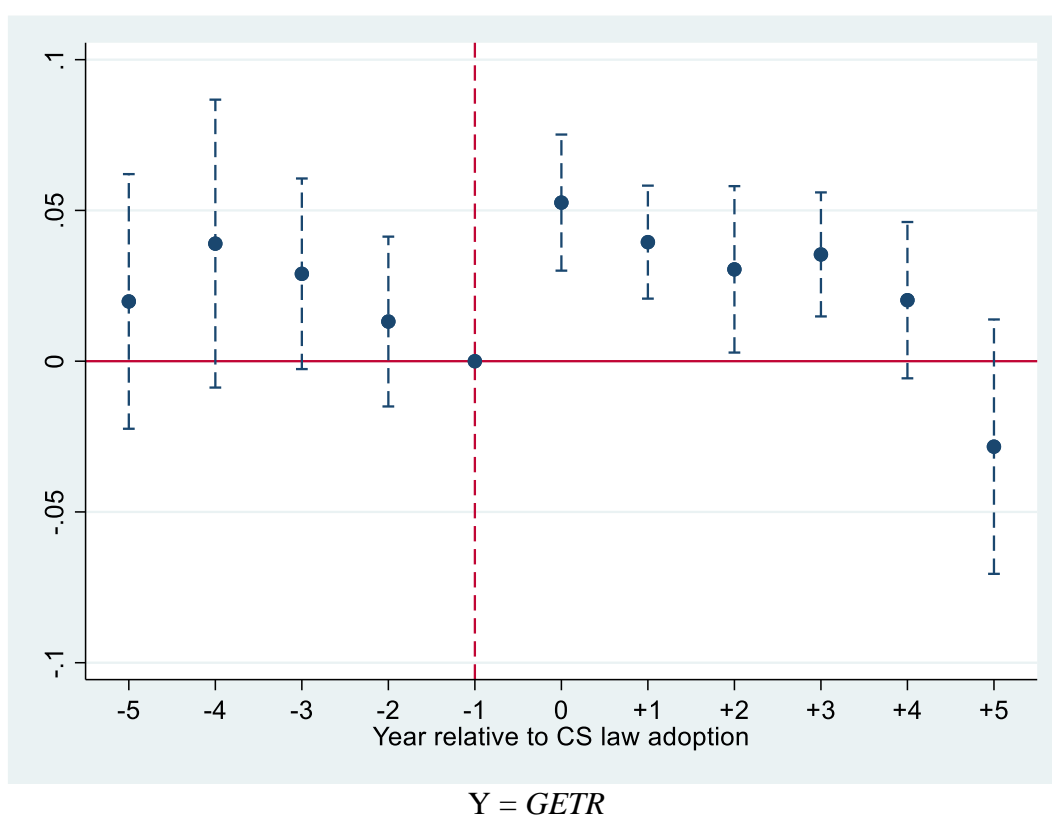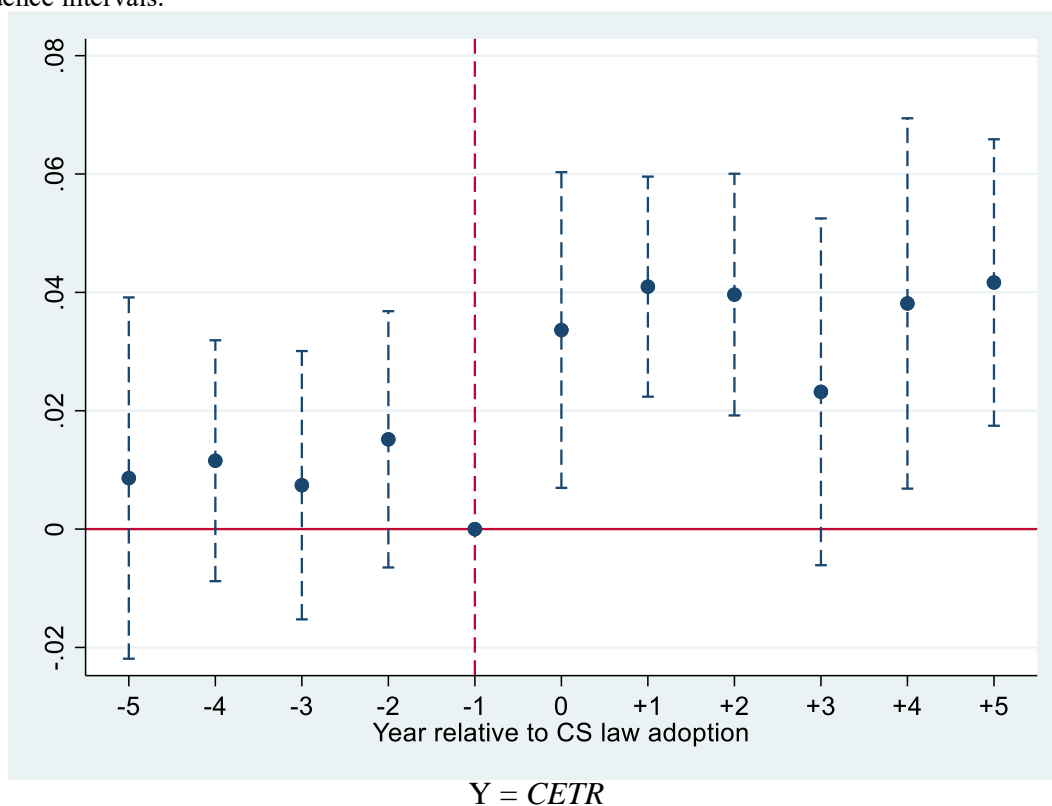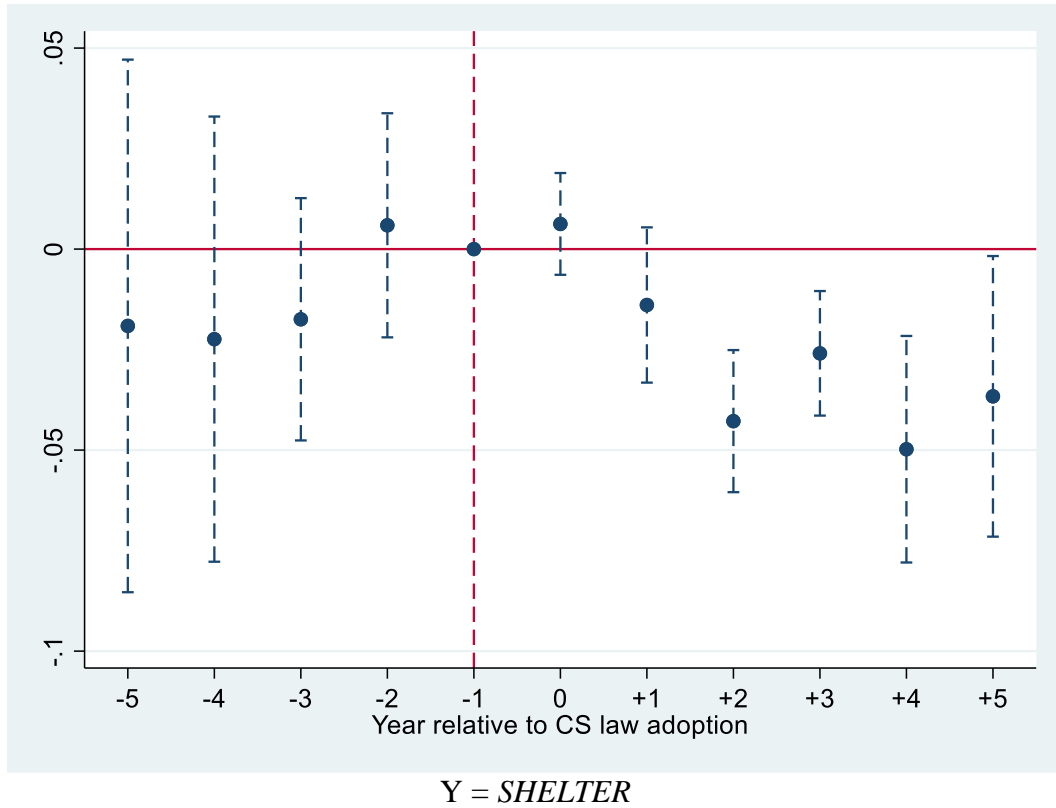
Table 1: List of the states adopting constituency statutes in our sample

This table lists the 27 states that adopted a constituency statute between 1988 and 2007 (Source: Barzuza (2009) and Mayberry and Watson (2021)) and the proportion of treatment firms for each event cohort of law adoption. According to Barzuza (2009), 35 states enacted a statute between 1984 and 2007. In our sample, we follow Mayberry and Watson (2021) and use the 27 states that adopted a statute from 1988 to 2007. This approach enables us to compare our results with those of Mayberry and Watson (2021), who also examine the effects of constituency statute adoption on corporate tax avoidance. Additionally, we need cash ETRs, which are not available before 1987.

Adoption Year	State	Fraction of treatment firms
1988	Idaho, Louisiana, Tennessee, Virginia	6.2%
1989	Florida, Georgia, Hawaii, Indiana, Iowa, Kentucky, Massachusetts, Missouri, New Jersey, Oregon	17.8%
1990	Mississippi, Pennsylvania, Rhode Island, South Dakota, Wyoming	6.0%
1991	Nevada	2.8%
1993	North Carolina, North Dakota	1.8%
1997	Connecticut	0.6%
1998	Vermont	0.1%
1999	Maryland	1.8%
2006	Texas	3.0%
2007	Nebraska	0.2%

Table 2: Summary statistics of the entropy balanced sample

This table reports the summary statistics for the dependent and independent variables for the stacked sample after entropy balancing of treatment firms and never-treated control firms in the pre-event period. The weight for each firm is obtained from entropy reweighting based on the averaged *CETR*, *GETR*, and all control variables over the five-year period before a firm's incorporation state adopts the constituency statute. See Appendix A for variable definitions.

Variable	N	Mean	SD	P25	P50	P75
CETR	93,799	0.285	0.267	0.252	0.350	0.391
GETR	93,799	0.270	0.254	0.120	0.268	0.381
SHELTER	81,551	0.385	0.487	0.000	0.000	1.000
ROA	93,799	0.112	0.126	0.042	0.096	0.169
Size	93,799	5.724	1.993	4.289	5.657	7.100
Foreign income (0/1)	93,799	0.386	0.487	0.000	0.000	1.000
Intangible assets	93,799	0.113	0.180	0.000	0.024	0.155
PPE	93,799	0.350	0.264	0.152	0.283	0.488
NOL>0 (0/1)	93,799	0.247	0.431	0.000	0.000	0.000
Change in NOL	93,799	-0.001	0.053	0.000	0.000	0.000
Market-to-book	93,799	2.695	2.704	1.253	1.993	3.232
Leverage	93,799	0.208	0.216	0.020	0.162	0.317
R&D	93,799	0.031	0.057	0.000	0.000	0.034
Equity income	93,799	0.001	0.004	0.000	0.000	0.000

Table 3: Stacked DiD analysis with entropy balancing

This table reports the tax effects of adopting constituency statutes based on the stacked DiD regression using the matched sample with entropy reweighting. The weight for each firm is obtained from entropy reweighting based on the average *GETR*, *CETR*, and control variables over the five-year period before statute adoption. The dependent variables include cash effective tax rate (*CETR*), GAAP effective tax rate (*GETR*), and tax sheltering (*SHELTER*). The sample includes firm-year observations from five years before to five years after adoption (year 0). In Panel A, *TREAT* equals one if a firm is incorporated in a state with a statute, and zero otherwise. *POST* equals one if a year is during or after adoption, and zero otherwise. In Panel B, *BEFORE(-5)* to *BEFORE (-2)* indicate years five to two before adoption. *AFTER(0)* is the adoption year, and *AFTER(+1)* to *AFTER(+5)* indicate years one to five after adoption. The benchmark year is the year before adoption (year -1). Firm-level controls include *ROA*, *Size*, *Foreign income (0/1)*, *Intangible assets*, *PPE*, *NOL>0 (0/1)*, *Change in NOL*, *Market-to-book*, *Leverage*, *R&D*, and *Equity income*. Robust standard errors are clustered at the state level, with *t*-statistics in parentheses. Cohort-Firm FE are cohort-by-firm fixed effects and Cohort-HQState-Year FE are cohort-by-(headquarter) state-by-year fixed effects. Variable definitions are in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

Panel A: Baseline regression

Dependent var. =	*CETR*	*GETR*	*SHELTER*	*CETR*	*GETR*	*SHELTER*
	(1)	(2)	(3)	(4)	(5)	(6)
TREAT×POST	**0.030***	**0.023***	**-0.020**	**0.027***	**0.023***	**-0.021***
	(3.97)	**(3.20)**	**(-2.57)**	**(3.74)**	**(3.10)**	**(-2.85)**
ROA				0.538***	0.045	0.050
				(14.24)	(1.58)	(1.33)
Size				0.045***	0.005	0.057***
				(8.50)	(0.67)	(5.57)
Foreign income (0/1)				0.002	-0.002	0.221***
				(0.19)	(-0.21)	(5.09)
Intangible assets				-0.024	0.040	0.027
				(-0.79)	(1.13)	(0.70)
PPE				-0.103***	-0.016	-0.056
				(-4.54)	(-0.37)	(-1.11)
NOL>0 (0/1)				-0.051***	-0.018*	-0.034***
				(-5.45)	(-1.76)	(-3.61)
Change in NOL				0.110**	0.066	-0.210***
				(2.27)	(1.03)	(-3.82)
Market-to-book				-0.007***	0.003*	0.009***
				(-7.66)	(2.00)	(5.18)
Leverage				-0.011	0.002	-0.118***
				(-0.41)	(0.14)	(-5.12)
R&D				-0.134	0.063	0.522***
				(-1.59)	(0.51)	(3.40)
Equity income				-1.303*	1.757	0.828
				(-1.89)	(1.66)	(0.83)
Cohort-Firm FE	YES	YES	YES	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES	YES	YES	YES
N	93,799	93,799	81,551	93,799	93,799	81,551
Adjusted R^2	0.254	0.178	0.787	0.254	0.178	0.787

Panel B: Dynamic analysis

Dependent var. =	CETR	GETR	SHELTER
	(1)	(2)	(3)
TREAT×BEFORE(-5)	0.009	0.020	-0.019
	(0.57)	(0.94)	(-0.58)
TREAT×BEFORE(-4)	0.012	0.039	-0.022
	(1.14)	(1.34)	(-0.82)
TREAT×BEFORE(-3)	0.007	0.029	-0.017
	(0.66)	(1.64)	(-1.17)
TREAT×BEFORE(-2)	0.015	0.013	0.006
	(1.41)	(0.94)	(0.43)
TREAT×AFTER(0)	0.034**	0.053***	0.006
	(2.54)	(4.69)	(1.00)
TREAT×AFTER(+1)	0.041***	0.039***	-0.014
	(4.43)	(4.24)	(-1.46)
TREAT×AFTER(+2)	0.040***	0.030**	-0.043***
	(3.91)	(2.22)	(-4.89)
TREAT×AFTER(+3)	0.023	0.035***	-0.026***
	(1.59)	(3.47)	(-3.38)
TREAT×AFTER(+4)	0.038**	0.020	-0.050***
	(2.45)	(1.57)	(-3.57)
TREAT×AFTER(+5)	0.042***	-0.028	-0.037**
	(3.46)	(-1.35)	(-2.12)
Control variables in Table 3 Panel A	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	93,799	93,799	81,551
Adjusted R^2	0.254	0.179	0.787

Table 4: Improved CSR performance following statute adoption and tax avoidance

This table reports changes in CSR performance around the adoption of constituency statutes and their tax effects. In Column 1, we run the first-stage regression based on the stacked DiD regression using a matched sample with entropy reweighting and CSR rating (*CSR_Rating*) as the dependent variable. *CSR_Rating*, based on KLD data, is defined as the total number of strengths minus the total number of concerns in five rating categories. Due to KLD data availability, the sample size is smaller than in Table 3. Firm weights are obtained from entropy reweighting based on average *CETR*, *GETR*, and control variables over the five years before statute adoption. The sample includes firm-year observations from five years before to five years after adoption (year 0). *TREAT* equals one if a firm is incorporated in a state with a statute, and zero otherwise. *POST* equals one if the year is during or after adoption, and zero otherwise. In Columns 2 to 4, we run the second-stage regressions using fitted CSR rating ($\widehat{CSR\_Rating}$) as the main independent variable, while cash ETR (*CETR*), GAAP ETR (*GETR*), and tax sheltering (*SHELTER*) as dependent variables. Firm-level controls include *ROA*, *Size*, *Foreign income (0/1)*, *Intangible assets*, *PPE*, *NOL>0 (0/1)*, *Change in NOL*, *Market-to-book*, *Leverage*, *R&D*, and *Equity income*. HQState-Year FE are (headquarter) state-by-year fixed effects. Robust standard errors are clustered at the state level, with *t*-statistics in parentheses. Variable definitions are in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

Dependent var. =	*CSR_Rating*	*CETR*	*GETR*	*SHELTER*
	1st stage	2nd stage	2nd stage	2nd stage
	(1)	(2)	(3)	(4)
TREAT×POST	0.210***			
	(2.85)			
$\widehat{CSR\_Rating}$		**-0.018**	**0.052**	**0.058**
		(-0.28)	**(1.65)**	**(0.62)**
Control variables in Table 3	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
HQState-Year FE	YES	YES	YES	YES
F-test of the excluded instrument	6.665			
[*p*-value of the *F*-test]	[0.015]			
Cragg-Donald Wald *F*-stat of weak instrument	81.79			
N	28,308	28,308	28,308	25,597
Adjusted R^2	0.734	0.258	0.340	0.784

Table 5: Cross-sectional results
This table reports the tax effects of adopting constituency statutes based on the stacked DiD regression using a matched sample with entropy reweighting, including interactions. Firm weights are obtained from entropy reweighting based on the average *CETR*, *GETR*, and control variables over the five years before statute adoption. The dependent variables are cash ETR (*CETR*), GAAP ETR (*GETR*), and tax sheltering (*SHELTER*). The sample includes firm-year observations from five years before to five years after adoption (year 0). *TREAT* equals one if a firm is incorporated in a state with a statute, and zero otherwise. *POST* equals one if the year is during or after adoption, and zero otherwise. Panel A includes moderating variables such as the five-year averages of *CETR* in the pre-event period (*Pre-event CETR*), *GETR* in the pre-event period (*Pre-event GETR*), and *SHELTER* in the pre-event period (*SHELTER*). Panel B uses the *Pre-event CSR_Rating,* defined as the pre-event total number of strengths minus concerns in five rating categories: community, diversity, employee relations, environment, and product. Panel C includes *ESSI,* an indicator for firms in environmentally and socially sensitive industries. Panel D examines the impacts of pre-event transient institutional ownership (*Pre-event TRA_IO*) and dedicated institutional ownership (*Pre-event DED_IO*) on the effects of statute adoption. Panel E includes the *Pre-event E-index* is the pre-event entrenchment index. Panel F uses *MNC*, an indicator for multinational corporations, defined as firms with non-zero foreign income. Firm-level controls include *ROA*, *Size*, *Foreign income (0/1)*, *Intangible assets*, *PPE*, *NOL>0 (0/1)*, *Change in NOL*, *Market-to-book*, *Leverage*, *R&D*, and *Equity income*. Robust standard errors are clustered at the state level, with *t*-statistics in parentheses. Variable definitions are in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

Panel A: Pre-event tax avoidance

Dependent var. =	*CETR*	*GETR*	*SHELTER*
	(1)	(2)	(3)
TREAT×POST (b₁)	0.070***	0.149**	0.013
	(2.76)	(2.44)	(1.03)
TREAT×POST×Pre-event CETR (b₂)	**-0.162***		
	(-1.97)		
POST×Pre-event CETR	-0.396***		
	(-60.29)		
TREAT×POST×Pre-event GETR (b₂)		**-0.379****	
		(-2.18)	
POST×Pre-event GETR		-0.199***	
		(-20.66)	
TREAT×POST×Pre-event SHELTER (b₂)			**-0.097****
			(-2.53)
POST×Pre-event SHELTER			-0.061***
			(-19.50)
25th percentile of *Pre-event CETR / GETR / SHELTER*	0.163	0.232	0.000
50th percentile of *Pre-event CETR / GETR / SHELTER*	0.282	0.330	0.000
75th percentile of *Pre-event CETR / GETR / SHELTER*	0.369	0.381	0.833
DiD at the 25th percentile of pre-event tax proxies	0.044***	0.061***	0.013
p-value of *t*-test on DiD = 0	[0.002]	[0.006]	[0.311]
DiD at the 50th percentile of pre-event tax proxies	0.024***	0.024***	0.013
p-value of *t*-test on DiD = 0	[0.002]	[0.002]	[0.311]
DiD at the 75th percentile of pre-event tax proxies	0.010	0.004	-0.068***
p-value of *t*-test on DiD = 0	[0.271]	[0.574]	[0.004]
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES

Cohort-HQState-Year FE	YES	YES	YES
N	93,799	93,799	81,106
Adjusted R^2	0.288	0.203	0.793

Panel B: Pre-event CSR rating

Dependent var. =	GETR	CETR	SHELTER
	(1)	(2)	(3)
TREAT×POST	0.020**	0.016**	-0.021*
	(2.26)	(2.48)	(-1.80)
TREAT×POST×Pre-event CSR_Rating	**-0.011***	**-0.010***	**0.002**
	(-1.99)	**(-1.85)**	**(0.17)**
POST×Pre-event CSR_Rating	0.003	0.008***	-0.007***
	(1.40)	(8.43)	(-3.96)
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	21,741	21,741	19,583
Adjusted R^2	0.300	0.231	0.769

Panel C: Environmentally and socially sensitive industries

Dependent var. =	CETR	GETR	SHELTER
	(1)	(2)	(3)
TREAT×POST (b1)	0.030***	0.021***	-0.031***
	(3.56)	(2.80)	(-3.28)
TREAT×POST×ESSI (b2)	**-0.012***	**-0.004**	**0.018***
	(-2.41)	**(-0.40)**	**(1.76)**
POST×ESSI	0.001	0.000	-0.006***
	(0.42)	(0.26)	(-3.55)
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	90,292	90,292	78,946
Adjusted R^2	0.244	0.170	0.788
b1+b2	0.018	0.017	-0.013
[p-value of the F-test of b1+b2]	[0.008]	[0.070]	[0.042]

Panel D: Pre-event institutional ownership

Dependent var. =	CETR	GETR	SHELTER
	(1)	(2)	(3)
TREAT×POST	0.039***	0.047***	-0.044***
	(4.79)	(5.25)	(-3.15)
TREAT×POST×Pre-event TRA_IO	**-0.125***	**-0.266***	**0.253***
	(-2.59)	**(-3.59)**	**(1.87)**
POST×Pre-event TRA_IO	-0.107***	0.022	0.066***
	(-3.76)	(1.57)	(5.73)
TREAT×POST×Pre-event DED_IO	**0.078**	**-0.086**	**-0.022**
	(1.10)	**(-1.60)**	**(-0.21)**

	-0.052*	0.009	0.018
POST×Pre-event DED_IO	(-1.81)	(0.87)	(1.28)
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	93,799	93,799	81,551
Adjusted R^2	0.255	0.179	0.788

Panel E: Pre-event entrenchment index

Dependent var. =	CETR	GETR	SHELTER
	(1)	(2)	(3)
TREAT×POST	0.094**	0.001	-0.118***
	(2.13)	(0.02)	(-6.07)
TREAT×POST×Pre-event E-index	**-0.029***	**-0.001**	**0.036***
	(-1.76)	**(-0.06)**	**(4.68)**
POST×Pre-event E-index	0.001	-0.001	-0.018***
	(0.88)	(-0.79)	(-8.06)
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	28,385	28,385	25,576
Adjusted R^2	0.258	0.165	0.753

Panel F: Multinational operations

Dependent var. =	CETR	GETR	SHELTER
	(1)	(2)	(3)
TREAT×POST (b1)	0.028**	0.027***	-0.033***
	(2.66)	(3.70)	(-4.45)
TREAT×POST×MNC (b2)	**-0.005**	**-0.015**	**0.038**
	(-0.21)	**(-1.12)**	**(1.14)**
POST×MNC	-0.016***	-0.023***	-0.036***
	(-3.69)	(-5.20)	(-7.57)
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	93,799	93,799	81,551
Adjusted R^2	0.254	0.179	0.787
b1+b2	0.023	0.012	0.005
[p-value of the F-test of b1+b2]	[0.234]	[0.322]	[0.877]

Table 6: Robustness check: Controlling for other antitakeover law changes

This table reports the tax effects of adopting constituency statutes based on the stacked DiD regression using a matched sample with entropy reweighting, controlling for other antitakeover law changes. Firm weights are obtained from entropy reweighting based on the average *CETR*, *GETR*, and control variables over the five years before statute adoption. The dependent variables are cash ETR (*CETR*), GAAP ETR (*GETR*), and tax sheltering (*SHELTER*). The sample includes firm-year observations from five years before to five years after adoption (year 0). *TREAT* equals one if a firm is incorporated in a state with a statute, and zero otherwise. *POST* equals one if the year is during or after adoption, and zero otherwise. Four indicators proxy for whether the firm's incorporation state has adopted a control share acquisition law (*CSA*), business combination law (*BC*), fair price law (*FP*), and poison pill law (*PP*). Firm-level controls include *ROA*, *Size*, *Foreign income (0/1)*, *Intangible assets*, *PPE*, *NOL>0 (0/1)*, *Change in NOL*, *Market-to-book*, *Leverage*, *R&D*, and *Equity income*. Robust standard errors are clustered at the state level, with *t*-statistics in parentheses. Variable definitions are in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

Dependent var. =	*CETR*	*GETR*	*SHELTER*
	(1)	(2)	(3)
TREAT×POST	**0.023***	**0.025**	**-0.018**
	(2.81)	**(2.43)**	**(-1.98)**
CSA	0.039**	-0.003	-0.035***
	(2.39)	(-0.32)	(-2.71)
BC	-0.008	-0.004	0.030**
	(-0.46)	(-0.36)	(2.22)
FP	0.012	-0.019	-0.038
	(0.66)	(-1.33)	(-1.67)
PP	-0.004	0.004	-0.013
	(-0.36)	(0.49)	(-1.38)
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	93,799	93,799	81,551
Adjusted R^2	0.254	0.178	0.787

Table 7: Controlling for state-level macro-economic environment

This table reports the tax effects of adopting constituency statutes based on the stacked DiD regression using a matched sample with entropy reweighting, controlling for incorporation state-level GDP. Firm weights are obtained from entropy reweighting based on the average *CETR*, *GETR*, and control variables over the five years before statute adoption. The dependent variables are cash ETR (*CETR*), GAAP ETR (*GETR*), and tax sheltering (*SHELTER*). The sample includes firm-year observations from five years before to five years after adoption (year 0). *TREAT* equals one if a firm is incorporated in a state with a statute, and zero otherwise. *POST* equals one if the year is during or after adoption, and zero otherwise. Firm-level controls include *ROA*, *Size*, *Foreign income (0/1)*, *Intangible assets*, *PPE*, *NOL>0 (0/1)*, *Change in NOL*, *Market-to-book*, *Leverage*, *R&D*, and *Equity income*. *ln(Incorporation State GDP)* is the natural logarithm of the GDP of an incorporation state. Robust standard errors are clustered at the state level, with *t*-statistics in parentheses. Variable definitions are in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

Dependent var. =	*CETR*	*GETR*	*SHELTER*
	(1)	(2)	(3)
TREAT×POST	**0.027***	**0.023***	**-0.021***
	(3.76)	**(3.21)**	**(-3.06)**
ROA	0.538***	0.045	0.051
	(14.22)	(1.57)	(1.33)
Size	0.045***	0.005	0.057***
	(8.45)	(0.65)	(5.62)
Foreign income (0/1)	0.002	-0.002	0.221***
	(0.19)	(-0.21)	(5.08)
Intangible assets	-0.024	0.040	0.027
	(-0.78)	(1.13)	(0.70)
PPE	-0.103***	-0.017	-0.056
	(-4.53)	(-0.37)	(-1.11)
NOL>0 (0/1)	-0.051***	-0.017*	-0.034***
	(-5.45)	(-1.74)	(-3.66)
Change in NOL	0.110**	0.065	-0.209***
	(2.25)	(1.03)	(-3.82)
Market-to-book	-0.007***	0.003*	0.009***
	(-7.62)	(2.00)	(5.20)
Leverage	-0.011	0.002	-0.118***
	(-0.41)	(0.16)	(-5.17)
R&D	-0.137	0.060	0.528***
	(-1.63)	(0.48)	(3.34)
Equity income	-1.304*	1.756	0.825
	(-1.89)	(1.66)	(0.82)
ln(Incorporation State GDP)	0.026	0.035	-0.045
	(0.47)	(0.60)	(-0.73)
Control variables in Table 3	YES	YES	YES
Cohort-Firm FE	YES	YES	YES
Cohort-HQState-Year FE	YES	YES	YES
N	93,799	93,799	81,551
Adjusted R^2	0.254	0.178	0.787

APPENDIX A
Variable definitions

Variable	Definition
Main tax avoidance proxies	
CETR	Cash effective tax rate, defined as cash taxed paid (TXPD) scaled by pre-tax book income (PI-SPI). When the denominator is non-positive, it is set to missing. It is winsorized within [-1, 1].
GETR	GAAP effective tax rate, defined as total tax expense (TXT) scaled by pre-tax book income (PI-SPI). When the denominator is non-positive, it is set to missing. It is winsorized within [-1, 1].
SHELTER	A dummy variable that captures a firm with a higher sheltering probability in a given year. It equals one if a firm is in the top quintile of the distribution of the tax sheltering probability in a given year, as predicted by the model as reported in Table 5, Column 1 in Wilson (2009): $$SHELTER = -4.30 + 6.63 \times BTD - 1.72 \times LEV + 0.66 \times SIZE + 2.26 \times ROA + 1.62 \times FOR\_INCOME + 1.56 \times R\&D$$ *BTD* is defined as $(PI - ((TXFED + TXFO)/str - \Delta TLCF))/$lagged AT. If TXFED is missing, *BTD* is defined as $(PI - ((TXT - TXDI - TXS - TXO)/str - \Delta TLCF))/$lagged AT, where str is the statutory federal income tax rate. *LEV* is defined as long-term debt (DLTT) scaled by total assets (AT). *SIZE* is the logarithm of total assets (AT). *ROA* is pre-tax income (PI) scaled by total assets (AT). *FOR_INCOME* is an indicator that equals one if a firm reports foreign pre-tax income (PIFO). *R&D* is defined as R&D expenditure (XRD) scaled by total assets (AT). If R&D expenditure (XRD) is missing, it is set to 0.
The constituency statute indicators	
TREAT	A dummy variable that equals one if a firm is incorporated in a state with an effective constituency statute, and it equals zero otherwise.
POST	A dummy variable that equals one if a year is during or after the adoption year of a constituency statute in treatment firms' state of incorporate, and it equals zero otherwise.
Firm characteristics	
ROA	Return on assets, defined as pre-tax income (PI) scaled by lagged total assets (AT).
Size	Natural logarithm of the market value of equity (PRCC_F×CSHO).
Foreign income (0/1)	Foreign income, defined as an indicator that equals one if foreign pre-tax income (PIFO) is positive.
Intangible assets	Goodwill and other intangibles (INTAN) scaled by lagged total assets (AT).
PPE	Net property, plant and equipment (PPENT) scaled by lagged total assets (AT).
NOL>0 (0/1)	An indicator that equals 1 if net operating loss carry-forwards (TLCF) is positive at the beginning of the year, and 0 otherwise.
Change in NOL	Change in net operating loss carry-forwards (TLCF) scaled by lagged total assets (AT).
Market-to-book	Market value (PRCC_F×CSHO) over the book value of equity (CEQ).
Leverage	Book leverage, defined as long-term debt (DLTT) scaled by lagged total assets (AT).
R&D	R&D expenditure (XRD) scaled by lagged total assets (AT), XRD is set to zero when missing.
Equity income	Equity income in earnings (ESUB) scaled by lagged total assets (AT).

ONLINE APPENDIX for

"Is Stakeholder Orientation Related to Corporate Tax Avoidance? New Evidence"

Methods and Supplementary Information

Replicating the results from staggered DiD regressions in Mayberry and Watson (2021)

Following Mayberry and Watson (2021), we estimate a staggered DiD regression model with two-way fixed effects:

$$Tax\ Measure_{i,s,h,t} = \alpha + \beta Statute_{s,t} + \boldsymbol{\delta}'Controls_{i,s,h,t-1} + \theta_i + \gamma_{h,t} + \epsilon_{i,s,h,t} \qquad (1)$$

The dependent variable captures the tax avoidance level of firm i in state s headquartered in state h in year t. The variable of interest, $Statute_{s,t}$, is an indicator that equals one for firms in state s, which has adopted the constituency statute by year t, and zero otherwise. This variable corresponds to the DiD item denoted as *Post* in Mayberry and Watson (2021). We include firm fixed effects (θ_i) and headquarter state-by-year fixed effects ($\gamma_{h,t}$), clustering standard errors at the incorporation state level. We control for the same set of common determinants of tax avoidance as denoted by $Controls_{i,t-1}$ in Eq. (1) and Table 3 of the paper.

Our sample includes 57,117 firm-year observations. All continuous variables (except for *CETR* and *GETR*) are winsorized at the 1st and 99th percentiles. On average, firms have a *CETR* of 25.9% and a *GETR* of 27.1%. Regression results in Table OA1 show that the DiD coefficients are statistically insignificant for both *CETR* and *GETR*, consistent with Mayberry and Watson (2021), indicating no significant impact on firms' ETRs from increased stakeholder orientation.

Table OA1: Results from staggered DiD regressions following Mayberry and Watson (2021)

Panel A summarizes the statistics for the main sample's dependent and independent variables. Panel B replicates Mayberry and Watson's (2021) findings on the tax effects of constituency statutes using the traditional staggered DiD regressions. The dependent variables are *CETR* and *GETR*. The *Statute* indicator equals one for firm-years with the statute in effect, and zero otherwise. Treatment firms are those affected by a law passed in time t. The control group includes all firms incorporated in states not passing the law at time t, even if they have already passed a law or will pass one later. Robust standard errors are clustered at the incorporation state level, with t-statistics in parentheses. Variable definitions are in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

Panel A: Summary statistics

Variable	N	Mean	SD	P25	P50	P75
CETR	57,117	0.259	0.264	0.091	0.254	0.375
GETR	57,117	0.271	0.285	0.223	0.345	0.389
ROA	57,117	0.106	0.146	0.034	0.092	0.167
Size	57,117	5.410	2.037	3.945	5.325	6.785
Foreign income (0/1)	57,117	0.346	0.476	0.000	0.000	1.000
Intangible assets	57,117	0.124	0.201	0.000	0.027	0.168
PPE	57,117	0.338	0.276	0.131	0.263	0.468
NOL>0 (0/1)	57,117	0.278	0.448	0.000	0.000	1.000
Change in NOL	57,117	0.001	0.081	0.000	0.000	0.000
Market-to-book	57,117	2.711	2.970	1.209	1.967	3.260
Leverage	57,117	0.208	0.237	0.011	0.147	0.313
R&D	57,117	0.038	0.184	0.000	0.000	0.037
Equity income	57,117	0.001	0.004	0.000	0.000	0.000

Panel B: Regression results

Dependent var. =	CETR	GETR	CETR	GETR
	(1)	(2)	(3)	(4)
Statute	0.006	0.001	0.007	0.001
	(0.82)	(0.07)	(0.89)	(0.13)
ROA			0.386***	0.150***
			(14.84)	(16.12)
Size			0.041***	0.023***
			(24.87)	(13.89)
Foreign income (0/1)			0.008**	-0.007
			(2.10)	(-1.16)
Intangible assets			0.004	-0.002
			(0.59)	(-0.20)
PPE			-0.062***	-0.001
			(-11.63)	(-0.06)
NOL>0 (0/1)			-0.051***	-0.021***
			(-12.21)	(-4.91)
Change in NOL			0.057***	0.039
			(5.33)	(1.62)
Market-to-book			-0.004***	0.001
			(-5.74)	(1.31)
Leverage			-0.019***	0.007
			(-3.32)	(1.14)
R&D			0.008***	-0.005
			(2.98)	(-1.44)
Equity income			-0.181	0.070
			(-0.48)	(0.20)
Firm FE	YES	YES	YES	YES
HQState-Year FE	YES	YES	YES	YES
N	57,117	57,117	57,117	57,117
Adjusted R^2	0.192	0.160	0.230	0.166

Table OA2: DiD by adoption year

This table reports the tax effects of adopting constituency statutes based on the stacked DiD regression using the matched sample with entropy reweighting. The weight for each firm is obtained from entropy reweighting based on the averaged *GETR*, *CETR*, and all control variables over the five-year period before adopting the statute. The dependent variables include cash effective tax rate (*CETR*), GAAP effective tax rate (*GETR*), and tax sheltering (*SHELTER*). The sample includes firm-year observations from the window of years [-5, +5] with year 0 being the year of adoption. We present the coefficients on *TREAT×POST* for each cohort of adoption year. Firm-level controls include *ROA*, *Size*, *Foreign income (0/1)*, *Intangible assets*, *PPE*, *NOL>0 (0/1)*, *Change in NOL*, *Market-to-book*, *Leverage*, *R&D*, and *Equity income*. Robust standard errors are clustered at the level of incorporation state, with *t*-statistics reported in parentheses. Cohort-Firm FE are Cohort-by-Firm fixed effects. Cohort-HQState-Year FE are Cohort-by-(headquarter) State-by-Year fixed effects. Variable definitions are provided in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

Dependent var. =	*CETR*		*GETR*		*SHELTER*	
Event Year	Coef.	*t*-stat	Coef.	*t*-stat	Coef.	*t*-stat
1988	0.145	1.060	0.033	1.043	-0.024	-1.591
1989	0.019	0.845	0.061	6.952	0.020	1.422
1990	0.049	6.652	0.021	2.855	-0.017	-3.674
1991	0.022	2.504	0.027	5.496	-0.089	-19.614
1993	0.023	3.450	0.019	3.744	-0.019	-6.431
1997	0.019	5.921	-0.038	-11.959	-0.059	-29.868
1998	-0.037	-4.064	0.048	15.867	0.012	2.574
1999	0.002	0.451	-0.021	-3.511	-0.004	-1.176
2006	0.040	5.656	0.033	5.889	-0.025	-1.547
2007	0.001	0.091	0.060	10.931	-0.104	-27.255

Addressing the estimation bias in traditional staggered DiD estimations

Recent econometric studies show that traditional staggered DiD estimations with two-way fixed effects can be biased due to treatment heterogeneity (Barrios, 2021; Callaway and Sant'Anna, 2021; Sun and Abraham, 2021; Baker et al., 2022). According to Bertrand and Mullainathan (2003, p.1056), such estimation "implicitly takes as the control group all firms incorporated in states not passing a law at time t, even if they have already passed a law or will pass one later on [for treatment firms affected by a law passed at time t]" (the bracketed information is added by the authors). In other words, the bias occurs because previously treated firms are included as controls for newly treated firms, leading to inaccurate average treatment effect estimates (Barrios, 2021; Baker et al., 2022). Baker et al. (2022, p.371) provide the intuition for this bias as follows: "In some of the 2x2s, already-treated units can act as effective comparison units, whose outcome changes may reflect treatment effects that are subtracted from the changes of later-treated units. Put differently, these regressions introduce a 'bad comparisons' problem." To address this, researchers suggest modifying the comparison group to exclude previously treated firms. For more details, refer to Barrios (2021), Callaway and Sant'Anna (2021), Sun and Abraham (2021), and Baker et al. (2022).

We adjust for bias from staggered treatment timing using a sample of 57,117 firm-years (1987–2010). Table OA3 reports the results from alternative DiD estimators. Panel A shows the results from the DiD estimator by Callaway and Sant'Anna (2021) using never-treated firms as the control group. In Columns 1 and 2, the DiD estimates are 0.045 and 0.032 without control variables (significant at 5% and 10%), indicating a 17% and 12% decrease in mean *CETR* and *GETR*, respectively. In Columns 3 and 4, the results remain similar with lagged firm-level control variables. Panel B uses both never-treated firms and not-yet-treated firms as controls (Callaway and Sant'Anna, 2021), which yields similar results but slightly smaller magnitudes. Therefore, adjusting for estimation bias, firms in states with constituency statutes pay more taxes relative to control firms. This supports the view that higher stakeholder orientation leads to less tax avoidance.

Panel C presents our continuous-sample regression results using Sun and Abraham's (2021) DiD estimator.[15] The DiD estimates of 0.035 and 0.070 are significant at the 5% and 1% levels, respectively. Including lagged control variables in Columns 3 and 4 does not change the findings. Both Callaway and Sant'Anna (2021) and Sun and Abraham (2021) estimators suggest a significant reduction in tax avoidance in treatment firms relative to control firms post-adoption of constituency statutes, indicating firms pay more taxes on average.

Table OA3: Baseline results using alternative staggered DiD estimators: Long-window analysis
This table reports the tax effects of constituency statutes using alternative DiD estimators over 57,117 firm-years (1987-2010). Panels A and B show the results from Callaway and Sant'Anna (2021) DiD estimator, using never-treated firms (Panel A) and both never-treated and not-yet-treated firms (Panel B) as controls. Panel C reports the results from Sun and Abraham's (2021) DiD estimator, using never-treated firms as controls. Dependent variables are *CETR* and *GETR*. *Statute* indicates if the statute is in effect (= 1) or not (= 0). Robust standard errors are clustered at the incorporation state level, with *t*-statistics reported in parentheses. Variable definitions are in Appendix A. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels (two-tailed), respectively.

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[15] De Chaisemartin and D'Haultfoeuille (2022) compare the two estimators: Sun and Abraham (2021) and Callaway and Sant'Anna (2021). They point out that the former assumes that all firms have the same counterfactual outcome trend, while the latter allows for different trends based on some observable characteristics. Moreover, Callaway and Sant'Anna (2021) allow using never-treated or not-yet-treated firms as controls, unlike Sun and Abraham (2021) who only use never-treated or last-treated firms as the control group.

Panel A: Callaway and Sant'Anna's (2021) estimator (never-treated firms as control firms)				
Dependent var. =	*CETR*	*GETR*	*CETR*	*GETR*
	(1)	(2)	(3)	(4)
Statute	0.045**	0.032*	0.043**	0.030*
	(2.15)	(1.83)	(2.02)	(1.70)
Control variables in Table 3	NO	NO	YES	YES
Firm FE	YES	YES	YES	YES
HQState-Year FE	YES	YES	YES	YES
N	57,117	57,117	57,117	57,117
Panel B: Callaway and Sant'Anna's (2021) estimator (never-treated & not-yet-treated firms as control firms)				
Dependent var. =	*CETR*	*GETR*	*CETR*	*GETR*
	(1)	(2)	(3)	(4)
Statute	0.042**	0.031*	0.041**	0.029*
	(1.99)	(1.80)	(2.00)	(1.69)
Control variables in Table 3	NO	NO	YES	YES
Firm FE	YES	YES	YES	YES
HQState-Year FE	YES	YES	YES	YES
N	57,117	57,117	57,117	57,117
Panel C: Sun and Abraham's (2021) estimator (never-treated firms as control firms)				
Dependent var. =	*CETR*	*GETR*	*CETR*	*GETR*
	(1)	(2)	(3)	(4)
Statute	0.035**	0.070***	0.035**	0.071***
	(2.42)	(5.88)	(2.56)	(6.12)
Control variables in Table 3	NO	NO	YES	YES
Firm FE	YES	YES	YES	YES
HQState-Year FE	YES	YES	YES	YES
N	57,117	57,117	57,117	57,117

Validation of constituency statute adoption as a research setting

A valid test of the stakeholder orientation-tax avoidance link requires that states do not adopt constituency statutes to change firms' tax positions. However, a concern is that firms with poor tax management may lobby for adoption to protect their tax decisions from shareholders. We note that many firms operate in many different states, and so lobbying for passing the statute may not effectively help their tax positions. Nevertheless, we use a Weibull hazard model to test if firms' tax positions in a state affect statute adoption time, comparing 27 states that adopted statutes (1987-2010) with those that did not. The adoption time is the year of adoption minus 1987. We use the average *CETR* and *GETR* of all firms that are incorporated in a state.

We control for macroeconomic and political factors, including *ln(State GDP)*, *State unemployment rate*, *Poverty rate*, *ln(State population)*, *ln(# of incorporated firms)*, *Political balance* (Democrats/total state representatives), and *Democrat governor* (1 if yes). We also consider lagged effect of state antitakeover laws: *Control share acquisition law* (0/1), *Business combination law* (0/1), *Fair price law* (0/1), and *Poison pill law* (0/1). To account for the temporal relationship between the independent and dependent variables, we use a one-year lag for the former. Appendix Table OA4 shows the results.

Panel A shows no significant effect of lagged state average *CETR* and *GETR* on the statute adoption hazard rate, indicating firms' tax positions do not cause adoption endogeneity. Lower GDP, larger population, and fair price law enactment delay statute adoption (Gao et al., 2021). Panel B shows that state-level average *CETR* and *GETR* are not explained by macroeconomic and political factors. This result rules out the possibility that the changes in state-level average ETRs may be correlated with changes in other determinants of the laws' passage.

Table OA4: The exogeneity of adopting constituency statutes with respect to firms' tax positions
This table reports Weibull hazard regression results under proportional-hazards (PH) formulation. The dependent variable is the logged expected time to a state's statute adoption year (1987-2010). State-years are dropped post-adoption of the statute. *State mean CETR* is the annual average of *CETR* for all firms incorporated in a state. *State mean GETR* is the annual average of *GETR* for all firms incorporated in a state. *ln(Incorporation State GDP)* is the natural logarithm of a state's GDP. *State unemployment rate (%)* is the unemployment rate. *Poverty rate (%)* is the state's poverty rate. *ln(# of incorporated firms)* is the natural logarithm of the number of firms incorporated in a state. *Political balance (%)* is the ratio of Democrat to the sum of Democrat and Republican state representatives in a state's House; *Democrat governor* is an indicator that equals one if a state's governor identifies him/her as a Democrat, and zero otherwise, and both variables are obtained from Carl Klarner Dataverse (Harvard University). *Control share acquisition law (0/1), Business combination law (0/1), Fair price law (0/1)*, and *Poison pill law (0/1)* are indicators for whether a state has an effective control share acquisition law (*CSA*), business combination law (*BC*), fair price law (*FP*), and poison pill law, respectively. Standard errors are clustered at the incorporation state level, with *z*-statistics reported in parentheses, *, **, and *** denote statistical significance level at the 10%, 5%, and 1% level, respectively.

Panel A: Estimating the timing of adopting constituency statutes

Dependent var. =	ln (Expected time)		
	(1)	(2)	(3)
State mean CETR	0.707		0.710
	(0.75)		(0.76)
State mean GETR		0.500	0.515
		(0.34)	(0.42)
ln(Incorporation State GDP)	-3.386*	-3.467*	-3.387*
	(-1.77)	(-1.81)	(-1.78)
ln(State population)	3.232*	3.309*	3.235*
	(1.68)	(1.72)	(1.69)
State unemployment rate (%)	-0.342	-0.343	-0.336
	(-1.31)	(-1.31)	(-1.28)
Poverty rate (%)	-0.004	-0.006	-0.003
	(-0.04)	(-0.06)	(-0.03)
ln(# of incorporated firms)	0.102	0.124	0.110
	(0.54)	(0.67)	(0.59)
Political balance (%)	0.009	0.010	0.009
	(0.43)	(0.50)	(0.43)
Democrat governor	0.888	0.876	0.891
	(1.50)	(1.46)	(1.52)
Control share acquisition law (0/1)	-0.036	-0.033	-0.042
	(-0.06)	(-0.05)	(-0.07)
Business combination law (0/1)	-0.113	-0.085	-0.118
	(-0.19)	(-0.14)	(-0.19)
Fair price law (0/1)	1.072*	1.081*	1.064*
	(1.79)	(1.78)	(1.77)
Poison pill law (0/1)	0.474	0.489	0.467
	(0.83)	(0.86)	(0.82)
N	412	412	412

Panel B: The relations between incorporation state-level characteristics and state-level ETRs

Dependent var. =	State mean CETR	State mean GETR
	(1)	(2)
ln(Incorporation State GDP)	0.164	0.032
	(1.12)	(0.61)
ln(State population)	-0.247	-0.092
	(-1.40)	(-1.31)
State unemployment rate (%)	-0.001	-0.006
	(-0.06)	(-1.67)
Poverty rate (%)	-0.002	0.000
	(-0.47)	(0.16)
ln(# of incorporated firms)	0.045	-0.015
	(0.94)	(-1.03)
Political balance (%)	0.000	-0.001
	(0.56)	(-1.56)
Democrat governor	-0.003	-0.010
	(-0.31)	(-1.34)
Control share acquisition law (0/1)	0.053*	0.002
	(1.87)	(0.14)
Business combination law (0/1)	-0.005	0.006
	(-0.35)	(0.47)
Fair price law (0/1)	-0.043	0.002
	(-1.35)	(0.13)
Poison pill law (0/1)	-0.024	-0.008
	(-1.58)	(-0.63)
Incorporation State and Year FE	YES	YES
N	766	766
Adjusted R^2	0.236	0.246